

Opposition Leader To Meet With Chun On Halting Violence

By Lena Sun
Washington Post Service

SEOUL — President Chun Doo Hwan and a prominent opposition leader have agreed to meet Wednesday for the first time in an effort to end nearly two weeks of street violence in South Korea, officials said.

Mr. Chun and Kim Young Sam agreed Tuesday to meet after Mr. Kim was reported to have dropped two conditions to holding the talks. One was that another opposition leader, Kim Dae Jung, be released from house arrest. The other was that the more than 200 protesters detained over the past two weeks be released.

Kiosk Soviet Vault Sets Record

PRAGUE (Reuters) — Sergei Bubka on Tuesday night set the seventh pole vault world record of his career, soaring over the bar at 6.03 meters (19 feet, 9 3/4 inches).

Mr. Bubka, the world and European champion and the only person to clear 6 meters, broke his own record of 6.01 meters, which he set in Moscow in July.

The record was set at the Rostky Memorial Grand Prix, which was interrupted by torrential rain.



A scene from "Hard Times" by Charles Dickens: London theater reviews, Page 7.

GENERAL NEWS
■ A French court refused to try an embezzlement case against Jean-Claude Duvalier. Page 2.
■ Jews from the United States and elsewhere arrived in Rome to protest Kurt Waldheim's visit to the Vatican. Page 2.

BUSINESS/FINANCE
■ U.S. prices rose 0.3 percent in May; durables orders dipped 0.1 percent. Page 9.

Down close: DOWN 5/8
The dollar in New York:
DM £ Yen FF
1.8345 1.603 146.05 6.1225

In return, government officials agreed to allow Kim Young Sam to consult with Kim Dae Jung.

Mr. Chun declared an end to debate on political reform in April and had refused to talk with his opponents. He announced a change of mind Monday and offered to meet at the presidential residence with Kim Young Sam and others.

The meeting between Mr. Chun and Kim Young Sam, president of the main opposition party, the Renovation Democratic Party, comes at a time when Mr. Chun is beset by the worst political crisis in his seven-year rule.

The talks between Mr. Chun and Mr. Kim are one of a series of high-level meetings among government, opposition and U.S. officials that are expected to take place Wednesday and Thursday.

Gaston J. Sigur Jr., assistant secretary of state for East Asian and Pacific affairs, arrived Monday in Seoul and met with Foreign Minister Choe Kwang Soo and Cardinal Kim Sou Hwan, leader of the country's two million Catholics.

Kim Young Sam, in preparing for the meeting with Mr. Chun on Wednesday, said he would seek a retraction of Mr. Chun's April 13 decision suspending talks with the opposition on reforming the constitution. He said he would demand a national referendum on how the next national leader should be elected.

The opposition has said the current system, in which the president is chosen by an electoral college, is open to manipulation by the ruling party. It wants direct election of the president while the ruling party is proposing a parliamentary system headed by a prime minister.

"When the government guarantees that we can have a democratic government," Mr. Kim said, "then there won't be any demonstrations and violence."

Mr. Chun is under extreme pressure to introduce democratic reforms. Still, on Tuesday, he presented a business-as-usual message, leaving town for the day for the official opening of a pair of nuclear

U.S. Widened Lead in '86 as No. 1 Debtor

\$263 Billion Owed To Rest of World Is Double '85 Total
The Associated Press

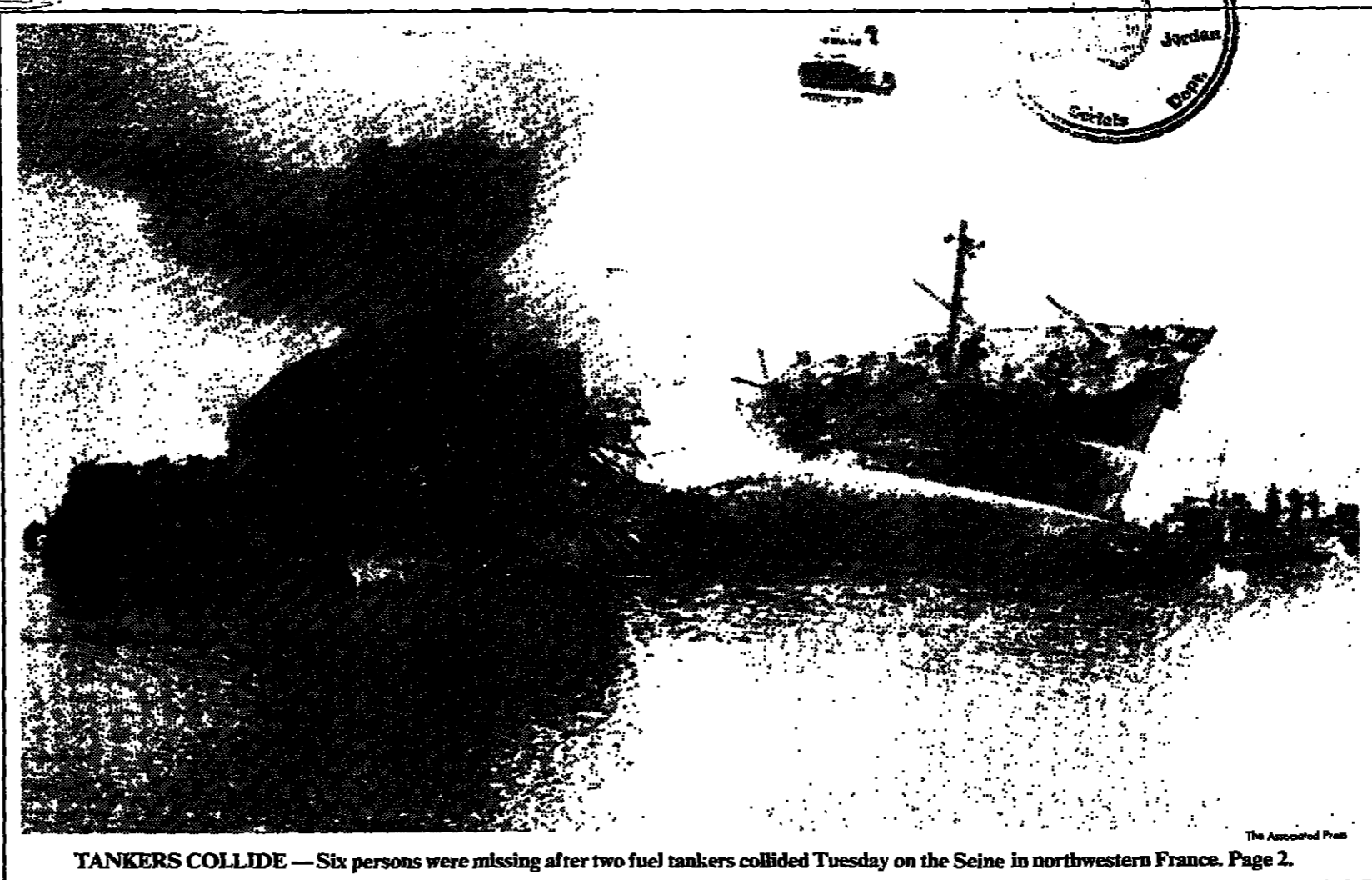
WASHINGTON — The debt owed by the United States to the rest of the world more than doubled in 1986 to \$263.6 billion, sinking the nation deeper into its position as the world's No. 1 debtor, the Commerce Department said Tuesday.

The Commerce Department said that the new debt burden was 135 percent higher than a revised \$111.9 billion in debt to foreigners that the United States was carrying at the end of 1985.

That year marked the first time since 1914 that America was classified as a debtor nation. Debtor status means that foreigners now own more in U.S. investments than Americans own in foreign investments.

Analysts had expected the figure to be around \$200 billion. At \$263.6 billion, the U.S. debt exceeded that of the next three biggest debtor nations combined, Brazil, Mexico and Argentina.

For 1986, foreign investment in the United States shot up 26 percent to \$133.1 billion. That offset a 13 percent increase in U.S. invest-



TANKERS COLLIDE — Six persons were missing after two fuel tankers collided Tuesday on the Seine in northwestern France. Page 2.

Dollar Ends Lower As Split Emerges On Its Direction

By Ferdinand Proczman
International Herald Tribune

The dollar shed strong early gains Tuesday to finish mostly lower in Europe and New York, reflecting newly split opinion in the market on whether the U.S. currency's slump has finally ended.

The dollar's rally in Europe crumbled in late dealings on rumors that the U.S. Federal Reserve was selling dollars just below the levels of 1.85 Deutsche marks and 147 yen.

News that the U.S. foreign debt more than doubled in 1986 to \$263.6 billion further depressed the currency. In New York, it ended at 1.8345 DM, down from 1.8470 DM at Monday's close, and at 146.05 yen, down from 146.20.

It also weakened against the British pound, which rose to \$1.6030 from \$1.5875.

While some exchange dealers believe that the U.S. currency has "bottomed out," and is beginning a gradual upward trend, the majority of them remain bearish.

But the division of opinion is in itself a substantial change, dealers

Syrian Denies Ultimatum on Kidnapping

By Ihsan A. Hijazi
New York Times Service

BEIRUT — A high-ranking Syrian officer said Tuesday that force will not be used for the time being to secure the release of a kidnapped U.S. journalist, Charles Glass, and a Lebanese businessman, Ali Ousseiran, who was his host.

Brigadier Ghazi Kanaan, the chief of military intelligence for 30,000 Syrian troops in Lebanon, denied reports in the Beirut press that the Syrian command had fixed Tuesday noon as deadline for the kidnappers to release the hostages. According to the reports, the Syrians had threatened to resort to force if the ultimatum went unheeded.

Mr. Ousseiran is the oldest son of the Lebanese defense minister, Adel Ousseiran, who denied a story in the leading daily newspaper, An-Nahar, on Tuesday that he would resign if his son were not set free by midday Tuesday.

All Ousseiran, his driver and Mr. Glass were seized by gunmen last Wednesday as they were driving in one of the predominantly Moslem Shiite southern suburbs of Beirut.

The fundamentalist faction, Hezbollah, or Party of God, which is linked to Iran, has denied that it is holding the captives.

Last February, Brigadier Kanaan supervised the deployment of 7,000 Syrian soldiers in Moslem West Beirut and routed militiamen who had engaged in bitter street fighting.

He returned to Beirut two days ago with instructions from President Hafez al-Assad to find the missing American and his Lebanese companions.

He visited the southern suburbs Tuesday and met with Sheikh Mohammed Mahdi Chamseddin, the spiritual head of Lebanon's one-million Shiite Moslems.

Sources close to the Syrian command said Brigadier Kanaan is sounding out Shiite leaders on the possibility of sending Syrian troops into the suburbs, a hotbed for Shiite extremists, with a population of about 700,000.

The possible Syrian deployment was discussed Monday night at a meeting between Brigadier Kanaan and Nabih Berri, the minister of justice who leads the largest Shiite militia, Amal.

The daily newspaper, Al-Hakika, known to reflect Mr. Berri's thinking, said in its lead story Tuesday that the latest kidnappings and factional clashes have underlined the need for Syrian military contingents in the southern suburbs.

U.S. Denies Talks Are Set

In Washington, however, the State Department took issue with Mr. Rowny's statement, Reuters reported.

"We've stated often about this question of a ministerial meeting that it's a possibility but nothing has been scheduled," said Phyllis Oakley, a State Department spokeswoman.

"I'm saying that a meeting has not yet been scheduled," she said. "The possibility certainly exists. Obviously we're considering it."

VW, Toyota Agree on Truck Venture In Germany to Counter Trade Pressure

By Ferdinand Proczman
International Herald Tribune

FRANKFURT — Volkswagen AG and Toyota Motor Corp., the biggest automakers in Europe and Japan, said Tuesday that they had agreed to join forces to produce up to 15,000 Toyota pickup trucks a year at a VW plant in Hannover.

Analysts said the accord, the third such venture between Japanese and European automakers in Europe, appeared to leave the door open for a later agreement on car production.

"Initially, the VW-Toyota agreement may involve only an exchange of technology or know-how on trucks," said an industry analyst for Westdeutsche Landesbank AG in Düsseldorf. "But the Japanese realize that they must eventually produce autos in Europe to protect their market share and access."

Japan sold more than one million cars in EC nations in 1986, and auto industry experts expect 1987 sales to be about 20 percent higher. In the face of growing hostility to their push into Europe's crowded auto marketplace, however, Japanese automakers have begun turning to joint ventures as a way of circumventing the possibility of formal trade curbs on their exports.

The VW accord, for example, effectively gives Toyota an opportunity to boost its sales in Europe by 15,000 units a year without running afoul of import restrictions. Honda Motor Co. and Nissan Motor Co. have similar joint-venture production operations in Britain.

"It's an effort to get a local production base with a minimum of risk," Ben Moyer, a Merrill Lynch analyst, told Reuters.

The accord, which calls for VW to produce Toyota's Hi-Lux pickup truck under license, had been expected. Talks between the two automotive giants had been under way for several months and Carl H. Hahn, VW's managing board chairman, indicated last week that a pact would be signed soon.

VW already has a joint-venture auto production agreement with Nissan, but analysts said it has not been a great success. Since its inception in 1984, sales of VW's Santana model, jointly produced in Japan with Nissan, have fallen far short of expectations.

A VW spokesman said Toyota will initially supply motors, drive trains, axles and brakes for the one-ton trucks, accounting for more than 50 percent of the parts and satisfying the European Community's local-content requirement. The percentage of VW-produced parts will be evaluated as the project develops and may be raised, he added.

The companies said they hope to begin production in early 1989, with a target of 8,000 trucks in the first year. Production after 1990 could rise to 15,000 trucks a year.

Both VW and Toyota will market the trucks.



RAIN DELAY — Groundsmen pulled the covers over Wimbledon's center court Tuesday on the second day of rain, but the showers later stopped and Boris Becker, Ivan Lendl and Stefan Edberg won first-round matches.

Hearings Focus on Iranian Go-Between

By Stephen Engelberg
New York Times Service

PARIS — The second phase of the congressional Iran-contras hearings, focusing on the arms sales to Iran, opened Tuesday, with one question certain to be at the center of debate.

That question is: why did the United States gamble its prestige on Manucher Ghorbanifar, the expatriate Iranian businessman who helped orchestrate the secret deals, even though many in the government viewed him as unreliable and as a liar?

Alluding to the Reagan administration's penchant for relying on him as an intermediary, Mr. Ghorbanifar said recently: "If they think I cheated them, why did they keep coming back to me?"

In this new phase of the hearings, the committees plan to examine the administration's and the president's obsession with the American hostages in Lebanon, which was so intense that it led many officials to overlook Mr. Ghorbanifar's questionable reputation.

For the American side," Mr. Ghorbanifar said, "the hostages were even more important than better relations with Iran. They were pushing for the hostages in every single meeting, in every single contact with Iran."

A series of conversations in Paris with this enigmatic man leaves several impressions.

He comes across as an inveterate



'If they think I cheated them, why did they keep coming back to me?' — Manucher Ghorbanifar

deal-maker with seemingly boundless enthusiasm for complex plots crisscrossing the Middle East; he sometimes offers riddles in place of direct explanations for what he has done; he will not talk at all about the factional struggles inside Iran that led the administration to seek an opening in Tehran in the first place.

Not everything he says can be verified. But the account of five

separate conversations with him that follows largely includes material about the Iran arms affair that could be confirmed elsewhere, either by others involved or by U.S. government documents.

In the interviews, Mr. Ghorbanifar challenged an American view of the Iran dealings that describes them as a clever confidence game in which gullible White House officials were lured into exchanging

weapons for a promise, never completely fulfilled, that Americans taken hostage in Lebanon would be released.

From Mr. Ghorbanifar's point of view, the Iranians were cheated by the American side, which repeatedly overcharged Iran for weapons and failed to deliver on promises.

Mr. Ghorbanifar provided copies of financial documents he has turned over to the congressional committees in support of his assertion that he made no money from the weapons shipments. He also made these points:

- The arms sales by America were known to and approved by all elements of the Iranian government. "Nobody has private money in the government," he said. "The budget is from one place." American officials have said Mr. Ghorbanifar led them to believe they were dealing with moderates struggling for power after Ayatollah Ruhollah Khomeini dies, not with radicals who supported terrorism.
- Iranian officials used a three-pronged approach when dealing with the radical Shiite Moslem groups believed to be holding the hostages in Lebanon. First, he said, they would dispatch religious leaders for power after Ayatollah Khomeini dies, and if all else failed, the Iranians would send armed operatives.
- Mr. Ghorbanifar said the Rev-

See GHORBANIFAR, Page 3

From Montenegro, Roundabout Road to Better Life

By Henry Kamm
New York Times Service

TUZI, Yugoslavia — The black mountains of Montenegro have been verdant in the fullness of spring, and young men's fancies are turning to Mexico — and the lure of the border to its north.

For many years, ethnic Albanians from this underdeveloped region just across the mountains from Albania have been entering the United States illegally, to join relatives who entered earlier under a subterfuge.

"Those who come back to visit in the summer do a lot of advertising for America," said the Reverend Gjozil Pashko, an ethnic Albanian priest at the Franciscan Mission of St. Anthony of Padua in Tuzi.

As a result, said Zoran Gregl, undersecretary for foreign relations of Yugoslavia's Republic of Montenegro, the "Mexican connection" rises to peak activity every August.

"They come from America with their gold rings and gold watches and their dollars," Mr. Gregl said. "They are rich for people from here. They tell them all about striptease and life in America."

Mr. Gregl said that since the mid-1960s, from 18,000 to 30,000 ethnic Albanians from this region had migrated to the United States. In the beginning, according to the official, as well as the Reverend Markolaj Deda, another Franciscan, the road went through Italy.

Pretexting that they had entered Yugoslavia as refugees from repressive Albania, entire families persuaded American officials at refugee camps in Italy to grant them immigration visas with status as politically persecuted people. From this legal nucleus, the "Mexican connection" developed.

Almost everybody in Tuzi, as well as in the dirt-poor hamlets belonging to the villages of Plav and Gusinje farther east, has brothers, sisters or children in the United States. About 5,000 Albanians live in Tuzi, the Roman Catho-

lic priest said, and about 5,000 in the United States — many in Detroit, Chicago or Cleveland.

In the Plav and Gusinje area, most of the ethnic Albanians are Moslems. They, too, seem to have an equal number of compatriots in the United States, with New York the favored center.

The American connection is evident throughout the region because, driven by yearnings for home, many of the migrants return for long stays on native soil. They build houses, make their Social Security pensions go farther than they would in Brooklyn and enjoy living in the mountain calm, surrounded by familiar languages and sights.

But they remain American patriots, even if in 16 years or so they did not acquire U.S. citizenship.

"Best country in the world, everything in America O.K.," said Mark Lulgjuraj, 49, who is

See MONTENEGRO, Page 6

WORLD BRIEFS

A Monet Brings Record Price in Paris PARIS (Reuters) — An 1878 painting of a bouquet of flowers by the French impressionist Claude Monet fetched 13.8 million francs (\$2.24 million) at an auction here Tuesday night.

Sandis to Search for Mines in Gulf WASHINGTON (AP) — Saudi Arabia has agreed to search for Iranian mines in the Gulf off the Kuwait coast and has designated hospitals for wounded Americans in case of emergencies, a senior U.S. official said Tuesday.

Thatcher Backs Pines on Peace Talks LONDON (Reuters) — Foreign Minister Shimon Peres of Israel won support Tuesday in talks with Prime Minister Margaret Thatcher for his proposal to hold an international peace conference on the Middle East.

Death Toll Now 18 in Barcelona Blast MADRID (Reuters) — The death toll in the Barcelona supermarket car-bomb attack by Basque guerrillas rose to 18 on Tuesday.

Carbide Cites New Proof of Sabotage NEW DELHI (NYT) — Union Carbide Corp. investigators, nearing the end of a 16-month inquiry, say they have found new witness documents and scientific evidence proving that the 1984 Bhopal toxic gas disaster resulted from sabotage by a company employee.

Peru's Prime Minister, Cabinet Resign LIMA (Reuters) — Prime Minister Luis Alva Castro of Peru and his cabinet have resigned, Foreign Minister Alan Wagner Tizon said Tuesday.

For the Record Bomb disposal experts in The Hague on Tuesday detonated a box left outside the Iranian Embassy. The police said the box turned out to be empty.

TRAVEL UPDATE

Paris Offers New Air Controller Status PARIS (Reuters) — A French Transport Ministry spokeswoman said Tuesday that the government planned to offer air traffic controllers the status of private employees instead of civil servants.

FAA Urged To Improve Flight Data Recorders

By Richard Wirtkin New York Times Service NEW YORK — The National Transportation Safety Board has opened a campaign to bolster standards for equipping airlines and other planes with crash recorders, which often play a critical role in determining the causes of accidents.

The rules cover the two types of crash-resistant recorders used by investigators to reconstruct events leading to accidents. One, a flight data recorder, provides continuous data on a plane's speed, altitude and other measurements of its performance.

Taiwan Adopts Law on Security TAIPEI — Taiwan's parliament approved national security laws Tuesday in a step toward ending 38 years of martial law.

6 Crewmen Are Missing in Seine Collision ROUEN, France — Six persons were missing and presumed dead Tuesday when two tankers collided on the Seine between Rouen and La Havre in northern France, officials said.

French Court Refuses To Judge Duvalier on Embezzlement Charges

By Jonathan C. Randal Washington Post Service PARIS — A French court refused Tuesday to consider Haiti's request to force the deposed Haitian president, Jean-Claude Duvalier, to return \$120 million that the new government said he looted during 15 years in power.

Jews Gathering in Rome For Waldheim Protests

United Press International ROME — Four U.S. Jewish activists arrived here Tuesday from New York, saying they would demonstrate wherever President Kurt Waldheim of Austria appears during his official visit to the Vatican.

Poland Regrets Shelling of Ship

United Press International BONN — Poland has apologized to West Germany for an incident in which a Polish Navy ship hit a West German ship with eight anti-aircraft rounds in international waters in the Baltic Sea, the West German Foreign Ministry said Monday.

Harare to End White Elective Seats

Reuters HARARE — Zimbabwe will introduce an executive presidency and a single-chamber parliament this year and abolish separate parliamentary representation for the white minority, it was announced Tuesday.



A worker repairing flagstones at one of the monasteries in Tibet once ruined by the Chinese.

Tibet, Still China's Untamed Dragon Hatred Lingers After Frenzy of Death and Destruction

By Edward A. Gargan New York Times Service LHASA, Tibet — Four green-uniformed Chinese policemen swaggered into a small restaurant on Xinfu Road, drank tea and left without paying.

Witness Attacks Demjanjuk's Alibi

Reuters JERUSALEM — Israeli prosecutors tried on Tuesday to destroy the alibi of John Demjanjuk, the retired Ohio auto worker charged with war crimes as a Nazi guard during World War II.

Storms Add to U.S. Airline Delays

The Associated Press NEW YORK — On the first two days of summer, hundreds of air travelers in the United States reached their destinations only after delays, finding that in many cases, airlines did not apply for their seats in May.

Paris Offers New Air Controller Status

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Advertisement for Nina Ricci Boutiques, featuring text about sales and store locations in Paris.

Advertisement for Pacific Western University, offering a University Degree and a Bachelor's/Master's/Doctorate degree.

Handwritten Arabic text at the bottom of the page.

Washington's Task in Seoul

Now more than ever, the United States needs to sound the call for peaceful transition to democracy in South Korea. That country has reached a pivotal moment. Its future is being settled in the streets by protesters and police, with the army ever-present in the background. Its leaders operate in a culture where compromise and restraint are not considered political virtues.

Europe's Status Stays Quo

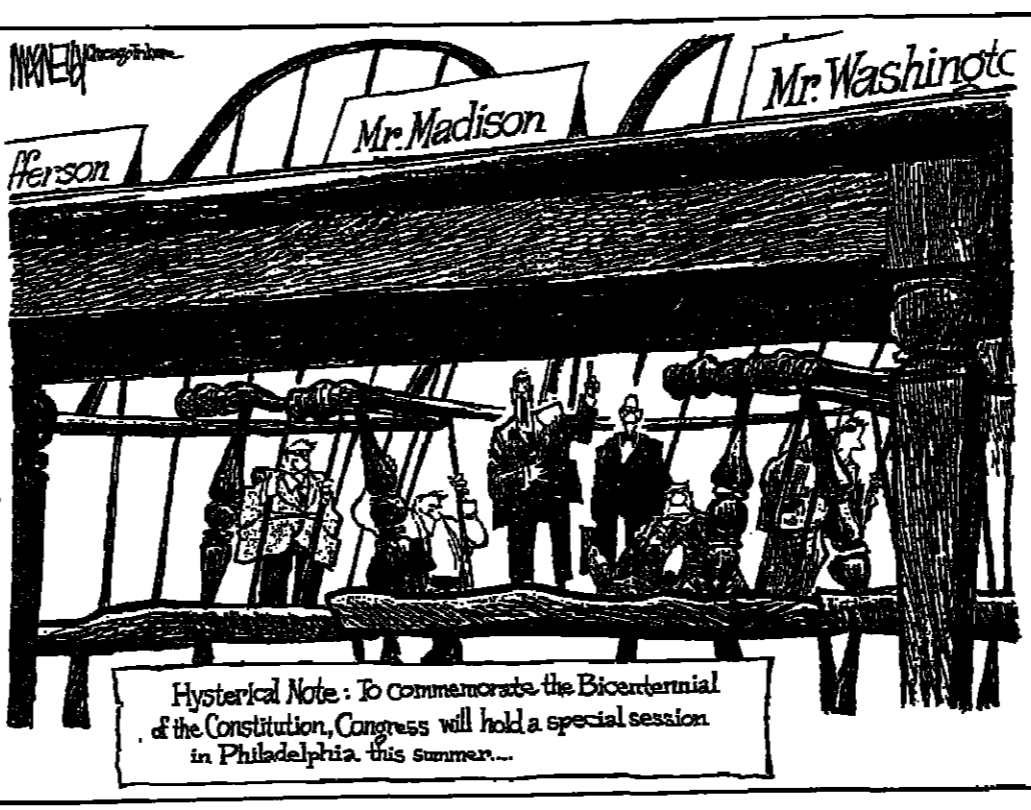
Europeans have been voting consistently this year for stability and the status quo. In the British and Italian elections this month, as in the West German elections last January, the results were strikingly similar to those four years earlier. In all three countries, the conservatives remain dominant.

Intervening in Panama

The crisis in Panama is moving into a new unstable phase in which popular unrest winds down at least temporarily but the outrage of military control goes on. General Manuel Antonio Noriega, commander of the 20,000-man defense force, has had the legislature indefinitely renew his first 10-day suspension of constitutional guarantees.

The Inimitable Aitaire

First, there were his looks. In truth, they didn't amount to much: medium height, skinny build, a loughish nose, thinning hair. But in top hat, white tie and tails he was champagne to everybody else's beer.



The Boland Amendment: Let the People Judge

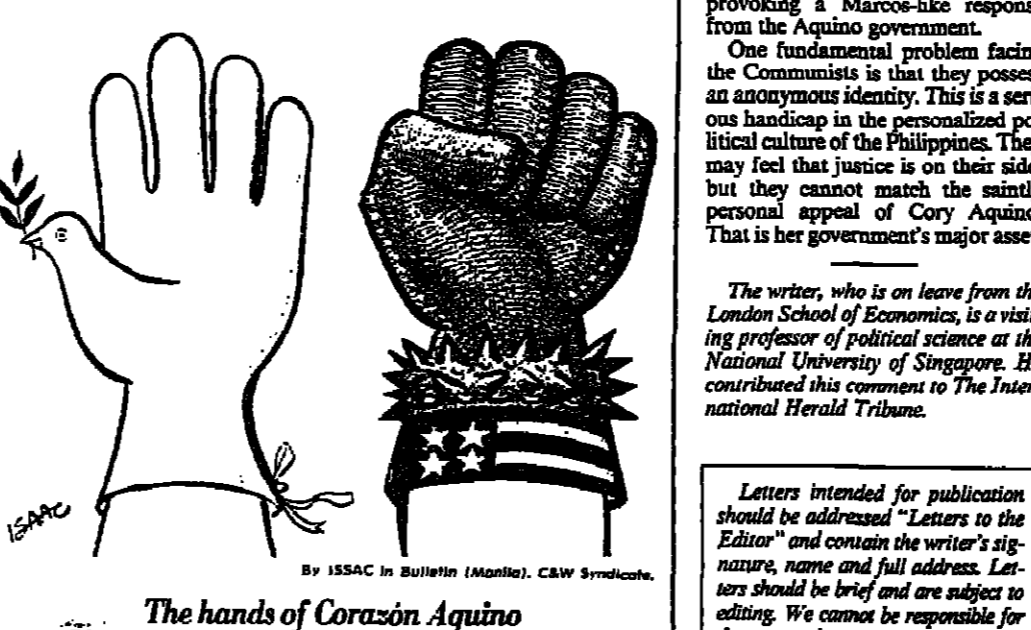
PROVO, Utah — President Reagan did not violate the Boland amendment when he asked the leaders of foreign governments to contribute funds to help the Nicaraguan Contras. The amendment prohibited "direct or indirect" support for the Contras from any funds available to "the CIA, the Department of Defense, any intelligence agency, or any other agency of the United States."

De Gaulle Saved France, From Himself

PARIS — There are a good many great men who have saved their countries from one threat or another, but I know of none, save one, who also saved it from himself. That was Charles de Gaulle, and the threat from which he saved France was that of the "shipwreck," his phrase, of his own old age. The story, to the best of my knowledge, has never been published. My source is the American diplomat directly concerned, who prefers not to be named.

Philippines: Communists in a Quandary

MANILA — The frustration of the Communist Party of the Philippines was displayed earlier this month in an advertisement its political bureau placed in a Manila newspaper. The advertisement complained of an executive order by President Corason Aquino outlawing the party.



OPINION

A Pontificating Congress In Muddles of Its Making

WASHINGTON — Why does the United States have a Congress? Because the constitution says it must. What does Congress do? Well, its members serve as extras in presidential specials. Try to imagine the State of the Union address without all those bodies, applauding or not applauding, providing cutaway shots for the television cameras focused on the president. In that sense, they are indispensable.

By Rex E. Lee

other need not, and should not, be decided as a blanket matter. Short of such an express confrontation, Congress's laws should be interpreted so as to avoid clashes between the constitutional prerogatives of the two elected branches of government.

By William Pfaff

Malraux then went on in characteristically allusive fashion to talk about de Gaulle. The general, he suggested, felt old age overtaking him. His sight was going. He felt his powers failing. He had seen others — his old companion at arms, Winston Churchill, for example — go on too long in public life.

An Issue to Address

AFTER the conclusion of the Iran-Iraq war, the United States may want to address itself to an issue that may be second to none in determining the future of American society: the notion that subversive activities can be carried out against other governments without subverting the U.S. government itself.

IN OUR PAGES, 75 AND 50 YEARS AGO

1912: Democrats' Turn PARIS — [A Herald editorial says:] The American public is now turning away from the echoes of Republican cacophony in Chicago toward the sounds of Democratic discord in Baltimore. All indications point to the Front Populaire, while the press of the Right [said] that the new set-up meant a return to orthodoxy.

INTERNATIONAL HERALD TRIBUNE JOHN HAY WHITNEY, Chairman 1978-1982 KATHARINE GRAHAM, WILLIAM S. PALEY, ARTHUR OCHS SULZBERGER Co-Chairmen

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OPINION

After NATO: The Drums of Decoupling

By William Safire

LONDON — The George M. Cohan phase of American foreign policy is ending. Send the word, send the word over there, "and we won't come back until it's over, over there."

Mr. Gorbachev's plan is simple: Since Western Europe could not be intimidated by Soviet nuclear missiles, then all of Europe should be denied of nuclear weapons, leaving the West vulnerable to old-fashioned Soviet tanks and planes and armies. The

How to counter the new conventional threat? Experience has shown that the Russians will discuss arms reduction only when their adversaries begin building defenses. That means not merely replacing the withdrawing Americans, but increasing and improving the forces needed to make a Soviet thrust too costly to undertake.

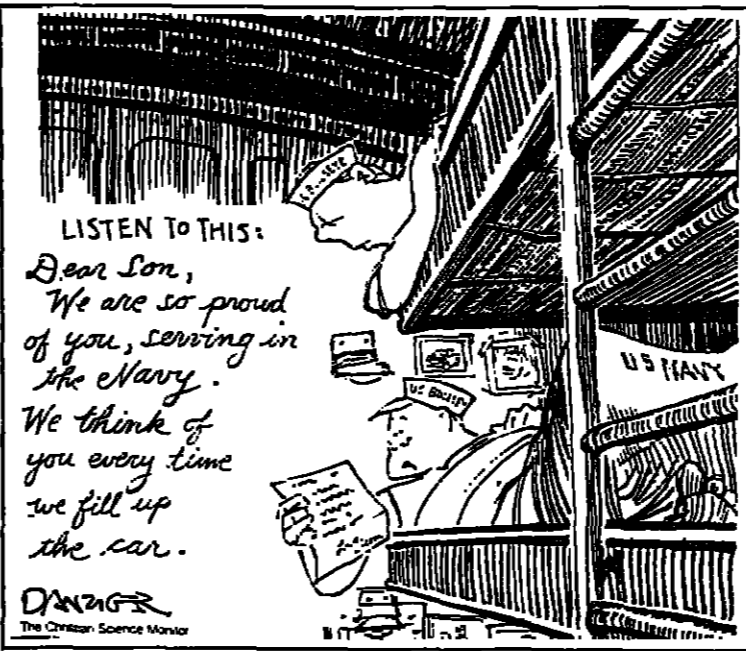
ESSAY

That is ritually denied by President Reagan and it will not happen on his watch. But the tectonic plates underlying the Atlantic alliance have shifted, and the next administration, Republican or Democrat, will abandon the old nuclear umbrella myth and face the new reality: The United States will not guarantee to respond automatically to a Soviet attack on Western Europe with an attack on the Soviet Union.

All the old fears of the consequences of recognizing reality, of a sinking of spirit and a rush to accommodation with communism, are losing relevance. Paris and Bonn have been shocked into talking about an integrated force, good. The era of defense dependency and its resentment is ending; the drums of decoupling are drum-drumming everywhere.

Europe and America need each other as much as ever, but with a different mutuality of reliance — the European states to defend their eastern border and free-market interests in specific regions, the United States to apply its strength to help freedom prevail around the globe.

The New York Times.



A Death, on the Longest Day, Of Someone Quite Particular

By David Glidden

RIVERSIDE, California — At the time it seemed a form of courtesy, to let the homeless have their benches and their benches, even to give them a little money to help them slake their thirst. Otherwise they were left alone, as independent spirits. But they were also left to die, to perish with the same indifference that sustained them.

MEANWHILE

The city is still dormant. But one long-ago longest day I found dreaming difficult, so I walked around Paris streets at 4 A.M. The street sweepers with their twig brooms were out, as were the garbage collectors and those who clean the gutters by laying down heavy rails next to street faucets to guide the stream first in one direction and then another.

A few remaining ladies of the night leaned against facades, making themselves conspicuous. Their clothing and facial paint revealed too much; what might have fascinated a man at midnight looked grotesque in the streaks of dawn. In an alley an elderly woman was feeding some unwanted, mangy cats. She talked in loving tones to them, and for the time they were her pets, competing for her attention, rubbing up against her legs. About that time the cafes opened their doors. The Algerian street sweepers and gutter washers gathered for a drink of some brightly colored liquor, yellow or green. And I walked into their cafe for a coffee and croissant.

LETTERS TO THE EDITOR

Voting Selfishly, of Course Regarding the news analysis "Britain's New Political Center: The 'Haves' Back Thatchers" (June 13):

The nativist of Howell Raines is astounding — or does he speak with tongue in cheek? He talks of Prime Minister Margaret Thatcher's appeal to voters' selfish interests. When have voters ever voted for someone else's interests? The voters have never forgotten the days when, under Labor rule, with 30 percent inflation, the country was very near to bankruptcy. Nor do they forget that there are those within the Labor Party whose sole ambition is to reduce the whole country to "have nots," and thus put us on the sure road to communism.

L.E. ALLWOOD. Le Château d'Oléron, France.

CEF's cooperation in developing countries through advocacy and public information as well as fund-raising activities and sales of greeting cards.

Jozef Verbeek and Michel Felu were not UNICEF officials as such but employees of the national committee for Belgium. Furthermore, Mr. Felu was not a volunteer but employed, with others, as part of the unemployment reduction program in Belgium. UNICEF is deeply concerned with the events in Brussels and firmly condemns these and all physical and moral attacks on children's dignity.

VICTOR SOLER-SALA. Director of UNICEF, Geneva Office.

Venice, for Tea and Photos Just how much more of this summit garbage must the world suffer through? The Venice media event between these so-called leaders resulted in nothing but meaningless piffle regardless of the cheerleading twists they tried to put on it.

JOAN KENNEKE. Vienna.

The Cruelty of the Bullring Your edition of June 3 shows a photograph of a bull semi-slurping during a pass at a matador in Madrid. Contrary to the would-be caption, "Topsy Turvy," the text describes something that seems to me to be anything but funny: "The bull's horn was rammed into his head but the fight went on."

Soft on History? Regarding the opinion column "Has Europe, the Crippled Golem, Given Up on Itself?" (June 1) by James Reston:

Is some Scooty Reston going soft in the head or just trailing his coat? His equation of 1787 America with today's Europe sounds like some provincial clown comparing contras to "our founding fathers." Both parochial and bogus.

Working Better Together I enjoyed "Superconductor Search: A Race and an Obsession" (May 19). But the remark by a physicist at Bell Laboratories has been bothering me. He said: "I suspect that the first products will be from Japan. Whenever individual efforts count, we have been leaders. Yet, when it comes time to turn ideas into products, we are lost."

A Generalist Philosophy Regarding "The Medical Birds and Pieces Don't Add Up" (May 26):

The dilemma Ellen Goodman points out is due to mass hypnotism via the mass media, a modern Western disease to which, fortunately, we in the developing world are not yet exposed. As a broadcasting professional, I am swaying back to the generalist philosophy of life: deal with the whole person, not parts of the system.

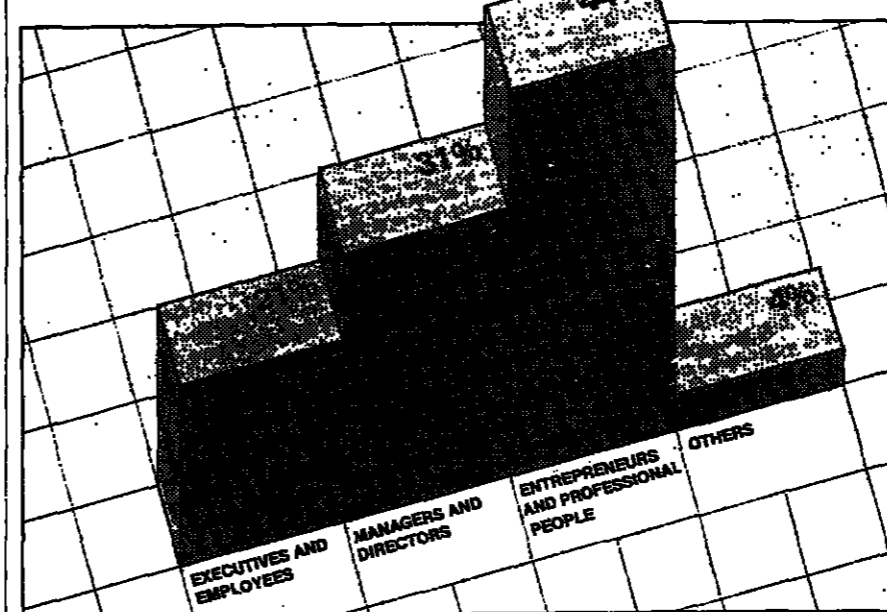
Pornography Scandal Regarding "15th Is Arrested in Pornography Ring in Brussels" (June 20), I would like to make the following clarifications: The persons arrested were members of the national committee for UNICEF and not of the organization itself. National committees are autonomous structures organized mostly in industrialized countries to support UNICEF's cooperation in developing countries through advocacy and public information as well as fund-raising activities and sales of greeting cards.

I am an Italian and as such I know of the waste of public money. During President Reagan's visit to Italy, millions of dollars were spent for his security; for guards, armored cars and so on. That is perfectly O.K.; the safety of the American president comes first.

But was it really necessary to ship from Portugal a double bed to the villa near Venice where the presidential couple spent a few nights? Couldn't the Reagans, for economy's sake and concern for the American taxpayers, have slept in separate beds? R.D. GRILLO. Paris.

While only 11% of all Italians hold an insurance policy other than their car insurance, the percentage goes up to 70% for II Sole 24 Ore readers: the umpteenth proof of their willingness to invest in well qualified goods and services.

advertising and solar energy



One third of all II Sole 24 Ore readers place savings in an investment fund (that's over ten times the Italian average), and 41% own shares quoted on the stock exchange, along with gilt-edged securities, and other fixed-interest bonds. There's more: half of its readers hold a personal credit card (the national average is 2%), and 54% use two or more banks as part of their everyday routine.

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The high purchasing power of II Sole 24 Ore readers is confirmed by the fact that 57% of them run two family cars (national average: 27%), and 20% of them actually own three. And more than half have a car with a capacity of over 1400 cc, the national average being 15%.

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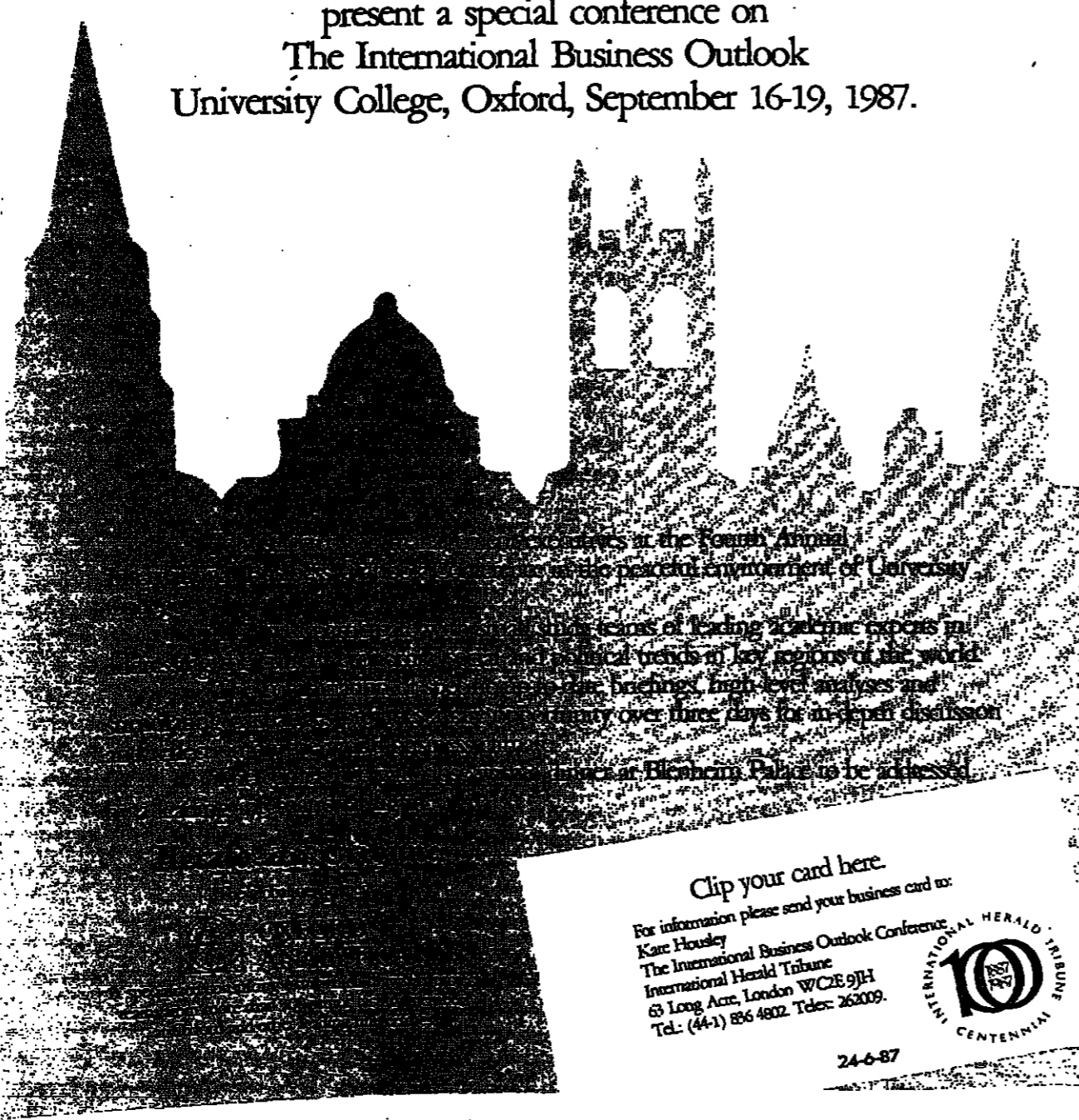
Over the past 12 months, thanks to their high decision-making power, II Sole 24 Ore readers have decided to purchase or rent important accessories for their professions: computers (38%), photocopiers, industrial equipment, apartments and premises.

While only 11% of all Italians hold an insurance policy other than their car insurance, the percentage goes up to 70% for II Sole 24 Ore readers: the umpteenth proof of their willingness to invest in well qualified goods and services.

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Jersey Islands

Channel Islands

Evolution of an Offshore Center

Stability Is Key to Financial Future

By Peter Body

ST. HELIER, Jersey — Although part of the British Isles, the Channel Islands had no direct involvement in the recent British general election. A collection of seven inhabited islands closer to France than England, the Channel Islands are not represented at Westminster and the two principal islands of Jersey and Guernsey have their own parliaments, which make their own laws and, most importantly, fix their own taxes.

Their allegiance is to the Queen of England, who is still toasted in the islands as the Duke of Normandy, emphasizing the historical link forged in 1066 between this former part of the Duchy of Normandy and the English Crown.

The British government has no direct say in the internal administration of the islands, although it does look after their defense and foreign affairs, services for which the islanders have only now agreed to help pay for.

The long debate over a defense contribution in the island's parliaments, known as the States, highlighted the rather peculiar constitutional relationship that exists with the United Kingdom.

The British government had requested that the islands help pay for defense, stressing that it was only a request, but pointing out that the islanders benefited as much from the protection of the British nuclear umbrella as do the inhabitants of Swindon or Swansea.

It was the kind of invitation that the islanders could not really refuse, and they agreed in principle to make a contribution, although some islanders pointed out that being defended by Britain did not stop them from being occupied by the Germans in 1940.

The only stumbling block was how the contribution was to be made, because a direct payment from the islands to Britain would smack too much of taxation without representation.

Some formula had to be found of making a payment while emphasizing the islands' independence, and lengthy discussions followed concerning the possibility of a "payment in kind," ranging in Jersey's case from buying and manning a minesweeper to establishing a search-and-rescue helicopter service.

Guernsey agreed to pay for the upkeep of a breakwater in Alderney originally built for the Royal Navy in the 19th century, and which some people said should have been paid for by Guernsey in any case.

After several States debates, Jersey eventually decided on an initial cash payment of £800,000 (\$1.28 million) with a territorial army unit to follow, representing only a tiny fraction of what British residents pay per head for defense.

Although a basic principle was at stake, many islanders believed that the British government was only asking for a defense

would be persuaded to use their financial services.

The claim is that it was only because of prudent budgeting and being naturally careful with money (some might even say mean) that the islands have been able to provide an efficient administration and a wide range of government services on an income tax rate of only 20 percent, with no value added tax, capital gains or inheritance taxes.

Having said that, however, the business partly attracted by low taxation is now so important to the economy that it is incon-

late in life and there are few young fire-

brands pushing for radical changes. Despite the presence of a sophisticated finance industry, things tend to move at a fairly leisurely pace in these island communities. Directors and administrators of Jersey's 24,000 companies are still waiting for a new Company Law to replace one that dates back mainly to 1861.

This delay is not through any lack of effort, but because of the lengthy discussions that have taken place with interested parties and the desire to provide sufficient controls over people involved in Jersey companies without stifling business.

The authorities have also been busy with a large number of other commercial laws in recent years, such as a Trusts Law, an Insurance Business Law that allows captive insurance companies to be set up, a Security Interests Law that widens the scope for lending and a Data Protection Law.

But the islands have not been slow to realize their potential as offshore finance centers, and finance is now the major contributor to the islands' economies.

A decade ago, the islands could have been more accurately described as tax havens, because they relied primarily on British residents and companies trying to avoid high taxation at home. Now they are much more international finance centers, no longer dependent on Britain but attracting business from all over the world.

Jersey's 54 banks have more than £25 billion in deposits, three-quarters of which is in foreign currencies, and Guernsey's banks hold over £9 billion in deposits. Also, of the 3,040 new companies registered in Jersey last year, two-thirds were owned by individuals and companies resident outside Britain.

Nevertheless, some Labor members of Parliament in Britain still complain about the tax revenue lost by the government through the use of the islands by British companies in particular. This campaign is being led by George Foulkes, who represents a mining constituency in Scotland.

If the Labor Party returns to power, he and some of his colleagues have threatened to do away with the islands' "tax privileges" by altering their constitutional position and, in particular, extending British Company Law to the islands.

It is generally accepted that the House of

Continued on page 11



A view of High Street, St. Peter Port, Guernsey.

International Influx

Banks See Growth in Securitization

By Jane McLoughlin

ST. HELIER, Jersey — Richard Le Saunier, president of the Jersey Bankers' Association, looks back and marvels that since the birth, 25 years ago, of "our financial-center baby," banking in Jersey has reached "a size at which it is seen as a fairy godmother by some, and a monster by others."

In 1973, there were 29 members of the Jersey Bankers' Association. They had a staff of 541 and contributed an average £2,216 (\$3,546) per employee to the States (government) of Jersey. Only four were foreign. Together, they held assets of £1 billion. Today, 58 banking institutions, including 27 foreign units, employ 3,650 people in banks and 2,200 in associated services. They pay an average £10,000 per employee to the States. Banking and financial services now employ 17 percent of the total Jersey work force of about 45,000 in a population of 80,000.

Banking has undergone several cycles of emphasis since Colin Powell, the economic adviser to the States and the man widely credited with engineering Jersey's banking boom, first arrived in the 1960s on an initial five-year assignment to manage the economy.

"Then, when the first merchant banks came in, it was on the backs of people coming out of the colonies with funds they wanted to put in a safe place," Mr. Powell said. "They wanted to move their money back to a British environment, but they wanted the tax advantages of an offshore center."

"There was a build-up of U.K. residents, too, using us for trusts within the exchange control area. So most of the banks coming in were from the U.K. The influx of the international banks started after the scheduled territories were redrawn in 1972, and people wanted to offer a service within the sterling area but not in the U.K. And then in the mid-'70s, there was a burst of business on the international loan side, with the attraction of lending where margins were taxed at 20 percent, rather than 52 percent in the U.K. and similar rates elsewhere."

That loan business has become a less important part of Jersey's banking business, with a consequent drop in total assets held to £25 billion. But almost 90 percent of the business on international financial markets is now in securitized form, and though this has led to a decline in the demand for offshore centers to syndicate large loans, some Jersey bankers see securitization of debt as a future growth area on the island.

In the meantime, though, the main growth area has been in personal banking. Jersey now offers low tax (20 percent across-the-board income tax and corporation tax of £500 a year), political stability and a comprehensive range of fund management services to the high-net-worth clientele the banking community cultivates.

Jersey banking is ultra-respectable now. The old offshore image of the island as a tax haven and a parking place for dubious money has been laid to rest. States' policy and the system of checks and balances as the biggest and most reputable names in international banking watch each other in this small community for any infringement of Jersey's united image just

tify the claims of Robin Rumbold, of Coopers and Lybrand, an adviser to the States: "We have avoided speculative and high-profile investment schemes, and have therefore suffered no collapse of market. We now offer a bona fide asset protection service of proven high standing."

Brian West, assistant manager of Lloyds Bank in Jersey, said: "The clearing banks have responded to the changing demand and now provide the full range of products to meet the needs of an international clientele. This exists side by side with the traditional domestic banking services required by our residents and tourists. There is no shortage of new business and we can therefore afford to be selective

Banking has reached 'a size at which it is seen as a fairy godmother by some, and a monster by others.'

about what we accept. For instance, we are very conscious of the problem of 'hot' money. If we're uneasy about a large sum of money or can't take up references, we turn it away. And that route of greater selectivity may well be our response to the shortage of resources. The staff we recruit and train here are very highly skilled — indeed, 20 percent of all those who pass the Chartered Institute of Bankers Trustee Diploma are from Jersey."

This reputation has been won in spite of the ease and the apparent lack of bureaucracy involved in setting up banking services in Jersey, particularly in trust administration and fund management, which are booming through the growth of private banking.

Deposit-taking bank services must provide accounts to the States, but that is the only aspect — and the extent — of licensing. The weeding out of dubious business ventures comes earlier, for the States has given banking room only to the more reputable international names. They preserve the integrity of the banking community by ruthlessly screening potential new business in Jersey under the Regulation of Undertakings Law.

"It amounts to a license for new business," Mr. Powell said. "If someone comes and wants to set up here, and we do not think them suitable, we use that law to prevent them getting in at all."

The Jersey Institute of Bankers, which has an educational function, puts 200 to 300 high

school graduates through the advanced trust administration and fund management courses now offered at the Jersey College of Further Education. The States may also contribute to the cost of residents' training abroad. But there remains a gap between supply and demand, and the banks are trying urgently to cooperate with the teachers both in supplying bank personnel to teach and training teachers in the banks.

For Jersey's technological revolution in banking could be a two-edged sword. While existing employees must learn to be more productive with the limited resources they have, there are already signs that costs in the City of London could become so high that international banks (particularly those with few existing European outlets) could center operations in the Channel Islands, with instant electronic links to the world's financial hubs.

Electronics make it possible to operate in London, Tokyo, New York and Frankfurt from the islands. The recent move by a Canadian bank, Dean Witter, out of London and into Guernsey is seen as the start of just such a trend.

So it is success that raises the only faint clouds over Jersey's banking boom. There is no shortage of business, but the banks are beginning to be selective over the type of business they want. They are already moving away from low-profit, labor-intensive activities. But the Jersey banking community must also continue to expand within the bonds of its limited resources. There is an American market to be wooed away from Switzerland; the Far East, too, offers opportunities for growth.

"Japan is a very important market, and I think Jersey banks will point more funds that way, though at the moment Luxembourg has the advantage of being co-members with Japan of the OECD," says David Humpleby, of Hill Samuel, merchant bankers. "But several Jersey banks now have links with Japanese finance houses, and I think others will also take on Japanese partnerships."

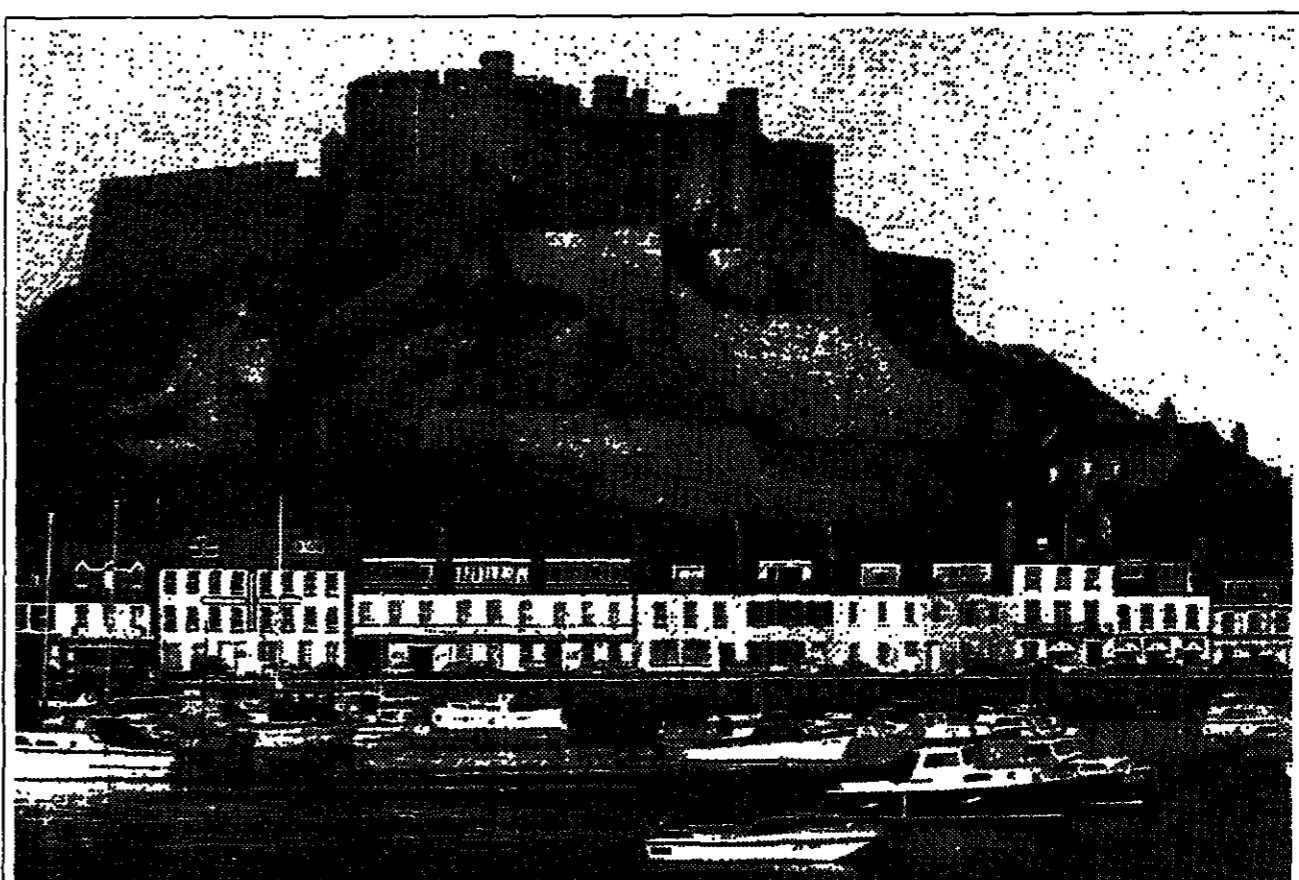
"Banking in Jersey is going to have to get more out of existing resources," Mr. Powell said. "We have not closed our doors to new banks, but development must be in the whole island's best interests. It's a question of whether to use resources to expand existing activities or to introduce new ones. We feel that new business must offer something that provides a diversification on what already exists."

One such diversification is building societies (home finance institutions), and the Abbey National has been negotiating for one of the few ways of entering the Jersey market place now — by acquisition.

"U.K. building societies can now tap overseas funds, and expatriates who have a tradition of placing funds with them could want representation of their traditional function here, mainly in collecting deposits; so we will cover any such niches as they arise," Mr. Powell said.

It is clear that among Jersey bankers, the customer is king. And as they can pick and choose their clients, only those with a king's ransom are going to qualify to be customers.

JANE M'CLOUGHLIN, a journalist specializing in economics and industry, contributes to The Guardian and The Daily Telegraph.



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Tourism a Mainstay of Economies

By Willa Murray

ST. PETER PORT, Guernsey — More than a million people visit the Channel Islands every year to whom the financial activities of St. Helier and St. Peter Port mean nothing. They come for the sea, the scenery, the sport and the interest of exploring these fascinating outposts of the British Isles.

Tourism remains a mainstay of the islands' economies, directly, by supporting hundreds of mainly family-run hotels and guest houses, and indirectly, by the money and employment it spreads throughout the whole community.

Without the tourist trade many of the facilities that make the islands attractive as financial centers would not exist — the year-round daily air links with the British mainland and France, the four-star hotels and gastronomic restaurants, the wide range of sporting amenities and cheap car rental (as little as £4 to £5 [\$6.40 to \$8] a day in Guernsey).

Annual visitor spending in Jersey is estimated at around £200 million and in Guernsey at £65 million, with tourism accounting for 37 percent of Jersey's gross national product and 24 percent of Guernsey's.

In the smaller islands of Alderney and Sark, tourist trade is the

Without the tourist trade and the wide range of sporting amenities, many of the facilities that make the islands attractive as financial centers would not exist.

main economic support apart from the revenue generated by well-to-do settlers.

Before the emergence of the offshore finance industry, selling vacations was far and away Jersey's biggest business. In Guernsey, it tended to take second place to horticulture, but with the decline of the tomato trade as the European Community opened up the British market to Dutch competition, tourism has moved well ahead of horticulture as an export earner.

Up to the 1970s, the Channel Islands were able to count on a local holiday market in Britain, where they had the image of being sunnier and more exotic than home resorts and something of a duty-free paradise.

Since then, they have had to face growing competition from

low-cost package holidays to Mediterranean and North African resorts. The trend is for the Channel Islands to become increasingly a second-holiday and short-stay destination for the British.

The islands have responded by looking to the Continent for more of their trade. Jersey has its own tourist office in Paris, as well as in London, and Guernsey has made a particularly strong drive in the Netherlands.

The islands now have direct flights in the tourist season from Amsterdam, Frankfurt, Geneva and Zurich. Car-ferry services operate from St. Malo to Jersey and Guernsey, and from Cherbourg to Guernsey, while hydrofoils and other passenger ferries link them with the Normandy and Brittany coasts.

Today, Jersey draws about 20 percent of its visitors from non-British markets, and Guernsey about 15 percent. But the islands' tourism prosperity remains overwhelmingly tied to the British market, where they still have a strong appeal as no-passport holiday destinations that combine a whiff of France and low-duty, VAT-free prices with a reassuringly familiar English environment.

After a disappointing early season last year, the Jersey Hotel and Guest House Association commissioned a £25,000 survey of the industry from accountants Deloitte Haskins & Sells. Although critical in many respects of the island's marketing efforts, the report was optimistic about the holiday product itself, which it saw as "well placed to meet the potential demand in the European travel market in the 1990s."

Due shortly is another report, commissioned this time at a cost of £50,000 from consultants Pannell Kerr Forster Associates by Jersey's Tourism Committee. This will set out a five-year plan for developing the island's tourist trade.

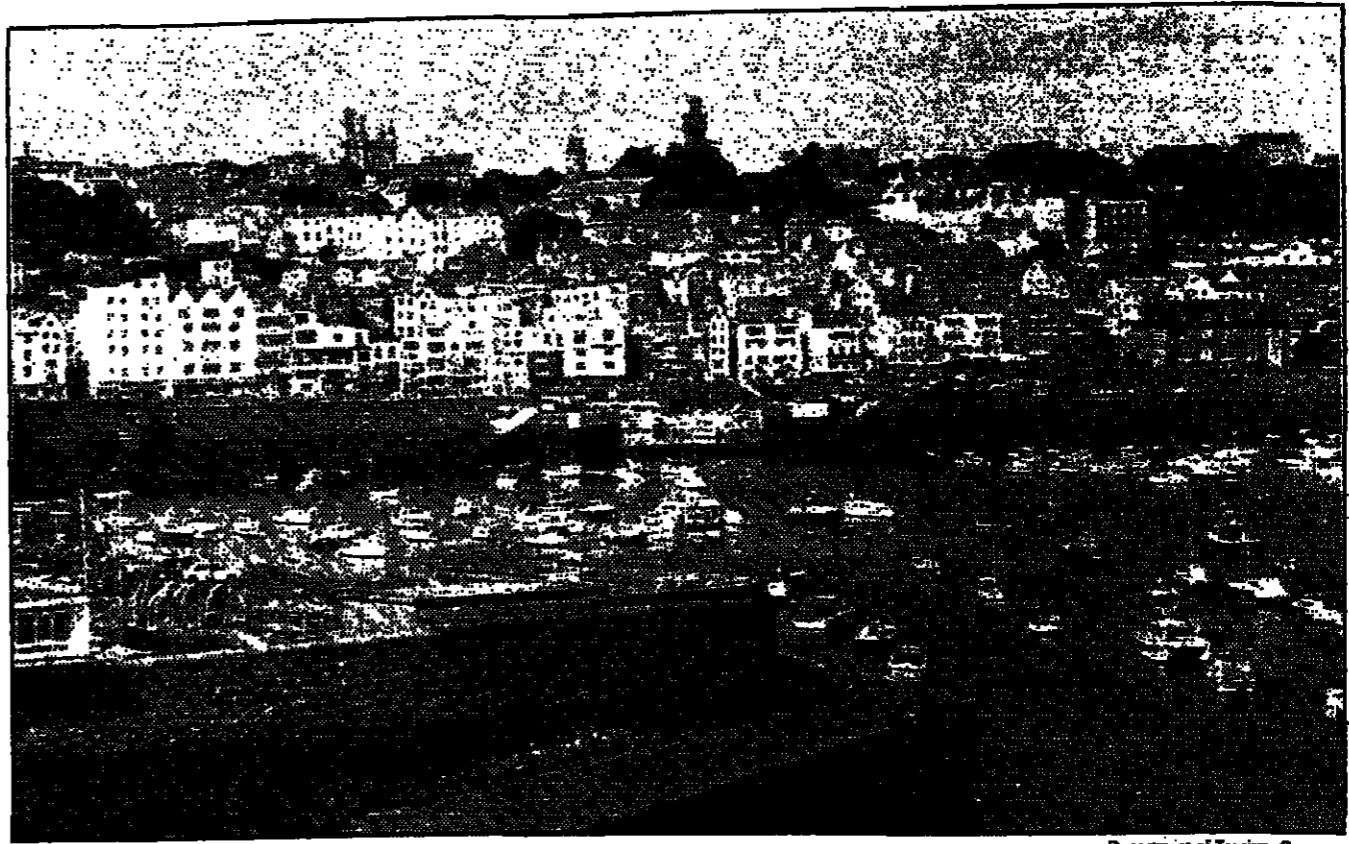
Despite their fine beaches and spectacular coastal scenery, the islands accept that they can no longer rely just on their natural beauty to draw tourists. They are more actively promoting attractions such as Jersey's internationally famous zoo and Victor Hugo's bizarre home of exile in Guernsey.

They are also making more of their surprisingly rich historical heritage, which stretches from Neolithic sites and evidence of Roman occupation to medieval castles, Napoleonic forts and towers, and the massive fortifications left by the Nazi invaders.

Many more special events are being organized to supplement traditional spectacles like the Battle of Flowers. Jersey stages a spring festival, a good food festival, a France-Jersey festival and a floral week, while Guernsey competes with dance festivals, a powerboat week, a chess festival and, for the first time this September, a two-week "arts and fun" festival.

With the opening this year of a new 820-berth marina, Guernsey is making a special effort to exploit its natural asset — the sea. The island will be the main sponsor of the 1988 International Boat Show in London and is to host the World Class I and II powerboat championships.

WILLA MURRAY is a journalist based in Guernsey.



Department of Tourism, Guernsey



Department of Tourism, Jersey

Three faces of the Channel Islands that predate the banks and stockbrokers: St. Peter Port, above, the chief town of Guernsey; a Jersey beach with its martello tower, and chrysanthemums ready for export.



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Political Stability Is Key Link to Financial Future

Continued from page 1

Commons does have the reserve powers to legislate for the islands in the interests of good government, but by convention built up over centuries, it has not done so.

The islanders also believe that it is inconceivable that the British Parliament, in which they are not represented, would seek to alter their constitutional position against their will.

With democratically elected

parliaments, the islands also clearly have the option of breaking away from Britain altogether if they wanted. They have already looked at the possibility of severing the monetary union that exists between them and Britain, just in case a future British government decided to reimpose exchange controls.

Up to this year, any exchange controls would have been automatically extended to the islands under British law, but one of the last acts of the Conservative administration before the June 11 election was to repeal this law, and even the Labor Party has said it would not want to use exchange controls again.

Another argument against interference from Britain is the significant contribution the islands' finance sector makes to the British balance of payments position and the level of foreign earnings. Several years ago, it was estimated by William Clarke, then the director-general of the British Invisibles Exports Council, that Jersey alone contributed more than £100 million to the balance of payments, and this figure will have increased considerably since then.

So far, the islands have been able to avoid any major financial scandals and have increased their reputation. As Colin Powell, the economic adviser to the States of Jersey, says, there are many reasons for Jersey's continued strength as a finance center, in-

cluding stability, good communications, proximity to the City of London and a high standard of professional services.

"But a key factor in recent years has been the reputation of the islands as a center that offers high service standards," he said.

"The islands have avoided the adverse publicity attaching to many other offshore centers, due in large part to the policy pursued of only approving new banks, trust companies, offshore funds, etc., related to first-class names of international renown."

But there is always the possibility that the all-important reputation of the islands will be tarnished in some way. Anywhere where banking secrecy and the use

of nominee companies is important, the system is vulnerable to abuse by criminal elements.

The laundering of the profits of drug dealers is a distinct possibility, but no evidence has been produced that this goes on to any extent. A House of Commons committee that visited the islands last year said it was satisfied that the authorities and the finance industry were as keen as anyone to avoid handling dirty money.

Both Jersey and Guernsey are introducing legislation to allow the confiscation of the assets of drug dealers and provide for more disclosure of information from financial institutions where the handling of dirty money is suspected.

Similarly, the authorities are planning legislation to ensure that Jersey and Guernsey companies are not used by insider traders in Britain or elsewhere to hide their illegal profits in share dealing. The new law will enable inspectors to be called in to investigate local companies where there are complaints of insider dealing. But the use of any information will be strictly limited, because the authorities are anxious not to destroy the islands' reputation for confidentiality.

An even more significant threat to the continuing prosperity of the Channel Islands is the need to curb immigration and restrict growth in order to protect the environment and way of life. Efforts are being made to dampen down an overheated economy by restricting the creation of jobs, which is seen to be the key to limiting the influx of people.

Many of the people coming in are considered essential to service the increasingly complex and sophisticated finance industry.

The finance committees of both Jersey and Guernsey believe that there is still plenty of scope for growth through increased competition, the more efficient use of resources, particularly manpower, and an emphasis on only the most profitable business.

Guernsey's Advisory and Finance Committee recently warned that there were some institutions on the island employing staff and other resources "without bringing commensurate benefit to the island."

"It would be ironic if management in the finance sector were to turn away repeatedly business which was both sound and profitable for lack of resources, with commensurate loss to the island's revenue, when valuable resources are being taken up by those who use the island for their convenience while providing little or no return," the report said.

Jersey's finance president, Senator Reg Jenne, has gone to great lengths to assure businesses that despite immigration problems, the door is not closed completely and that new businesses and people will be allowed in if they are shown to be of sufficient benefit to the island as a whole.

PETER BODY is the business editor of the Jersey Evening Post and associate editor of a sister publication, Offshore Finance.



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PETER BODY is the business editor of the Jersey Evening Post and associate editor of a sister publication, Offshore Finance.

Joy, ciao, kiyo

Islands' Budget ■ Fund Management

Prudence Guides Bulging Treasury as Bank Sector Fuels Economy

By Peter Body

ST. HELIER, Jersey — For many years now, the president of Jersey's Finance and Economics Committee has had a problem at budget time unlike any facing other finance ministers.

The problem has not been primarily trying to raise additional money in order to balance the budget; it has been to try to curb public spending when the budget figures continually show huge surpluses.

The fact that he does try to force restraint and caution on the island at a time of prosperity, shows the prudent way in which the financial affairs of Jersey and Guernsey have been handled in recent years.

The warning constantly given by finance presidents is that they have to resist spending too much so that there is enough money to put away for a rainy day when the economy might not be so buoyant.

So far, there is no sign of any downturn, and no place has gained more from the worldwide



expansion in service industries, particularly financial services, than the Channel Islands. Had their economy been based on manufacturing to any great extent, they would have

suffered from the recession as did the United Kingdom and most of Europe.

But manufacturing accounts for only a small percentage of gross national product, while services, particularly banking and finance, are the mainstays of the economy.

Whereas other economies with a large manufacturing base have been suffering unemployment of 10 per cent or more, Jersey's unemployment is negligible, and it is estimated that there are only about 50 long-term unemployed in Guernsey out of a working population of 28,000.

The population is also generally better off than its neighbors, and the latest available figures show Jersey's per capita GNP in 1985 to be about £7,000 (\$11,200) compared to the U.K.'s £5,400.

Finance has now overtaken tourism as the most important contributor to GNP, accounting for nearly 40 per cent in Jersey and 35 per cent in Guernsey, with tourism contributing 37 per cent in Jersey and 25 per cent in Guernsey.

The exchequers have also benefited greatly from the increasing profitability of financial services. Pre-tax profits of the banks in Jersey in 1985 amounted to £88 million, or £1,100 per head of population, and £49,000 per employee. In the other areas of finance, such as trust and fund management companies, are included, the profit figure was about £120 million.

Guernsey's banks are similarly profitable, and produced pre-tax profits last year of £47 million, or about £800 per capita.

As Guernsey's most recent Economic Report says: "The world boom in financial services has meant that finance sector profits have been the major contributor to increased GNP. Finance sector profits in 1986 are likely, other things being equal, to yield in excess of £19 million in tax revenues to the States of Guernsey (about one fifth of the total)."

Although the finance industry is generally blamed for causing excessive immigration, its profitability is also growing faster than the number of people employed in it. In Jersey's case, the number of people employed in the banking industry in 1985 was 9 per cent up on the previous year, but profit per employee increased by 17 per cent.

The additional tax revenue produced has enabled both Jersey and Guernsey to finance major capital projects, considering the total population is only 140,000 and the level of government services are generally as good if not better than most countries in Europe.

Despite the calls for restraint, the budget approved for this year in Jersey includes revenue spending of £172 million, up £10 million on last year's estimates, with the biggest spending committees being Public Health and Education.

In addition, a further £28.4 million has been

approved for capital projects, including £9 million toward buying land and building houses, which is considered a priority.

Jersey is also in the process of reclaiming land in order to build a new harbor costing £15 million, and £12 million has just been spent on the island's most complex building, an extension to the general hospital.

Even more could be spent, of course, but there is a marked reluctance to spend more money rather than build up reserves. Thus, Jersey's social security plan, while providing benefits in excess of most of those in the United Kingdom, is strictly a "pay as you go" plan where contributions match benefits and there is only a small amount of topping up from taxation.

Government departments in Jersey such as the post office, telecommunications and the harbors and airport, are also treated as trading concerns and are given profit targets to meet. Up until recently, they had to pay a commercial rate for borrowing money from the exchequer.

Even though States' spending increased by four times the rate of inflation in Jersey last year, revenue has also been buoyant thanks to the finance industry.

Last year's tax yield will probably increase by 12 per cent, and even though record spending is planned, the current president of finance, Senator Reg Jeune, was able to increase tax

allowances by more than inflation so that a couple with two children and a total income of £10,000 pay only £360 in income tax in Jersey compared to £1,100 in the United Kingdom.

Even then Senator Jeune was able to put an extra £10 million into a new strategic reserve, and available reserves now total £54 million, which is still too low, he says.

Although Guernsey is less prosperous than Jersey, and the finance industry not as large, a similar buoyant picture was painted in their recent budget when the surplus was twice what was expected.

This prosperity is shared by industries linked to the finance sector, and the construction industry in particular has been described as the barometer of the economy.

Large areas of both St. Helier in Jersey and St. Peter Port in Guernsey now resemble parts of the City of London, instead of very small provincial towns, as banks and other financial institutions build new headquarters. Chase Bank in Jersey, for example, has just moved into new offices at a cost of £10 million, and demand for new office accommodation is being reflected in rentals, which almost doubled in three years.

This growth is unlikely to continue as attempts are made to dampen the economy and curb job creation, but there are no signs that the Channel Islands bubble is about to burst.

Breadth of Financial Services Is Growing

ST. HELIER, Jersey — More offshore funds are run from the Channel Islands than anywhere else in the world, which is a good indication of the tremendous growth in the islands' financial services in recent years.

Fund management groups, such as Fidelity, MIM, Britannia, Save and Prosper, Warburgs and Hambros, manage more than £3.5 billion (\$5.6 billion) of investors' money in Jersey, and the Guernsey figure, which is unknown, is thought to be well in excess of £1 billion.

Fund management is only one important part of increasingly wide financial services offered to individual and institutional investors virtually anywhere in the world, and between the two islands, they probably provide the widest range of any offshore financial center in the world.

This has happened only in the past 25 years, when London merchant banks started to establish offices in the islands to service mainly British clients after the repeal of an ancient usury law that had restricted interest rates to a maximum of 5 per cent.

The first to arrive in Jersey was Hill Samuel, which was followed closely by Kleinwort Benson and then the first foreign institution, Royal Trust of Canada.

As the president of Guernsey's advisory and finance committee, Councillor Roydon Falls — who is the equivalent of minister of finance — noted recently: "The number of politically stable offshore centers, with good communications and a sound infrastructure, has been steadily diminishing."

In contrast, Jersey's economic adviser, Colin Powell, said that the reputation of the islands has been enhanced in recent years.

"Where Jersey has advanced most particularly in its standing as a finance center has been through its growing international reputation," he said.

Although Guernsey was a little later on the scene and picked up several institutions that could not get into Jersey, it is now in a similar position.

The services they offer have developed from simple bank deposit accounts in sterling to a comprehensive range of savings and investment accounts in virtually all major currencies.

Because of staffing problems, bankers have had to tailor their services to their staff numbers and not the other way around. Kleinwort Benson in Jersey, for example, has dropped several less profitable retail banking services, such as the issue of travelers checks, and the minimum deposit size has been raised from £1,000 to £5,000.

But there is plenty of this business available, according to the general manager, Richard Le Sautour, who is also president of the 54-member Jersey Bankers' Association.

"The impression going around is that Jersey is full, but we are never full, and there is still room for growth, although there has been a shift of emphasis," he said.

Robert Lindell, managing director of Chase Bank and Trust Company (CI) Ltd., said that they have drawn up plans for well into the 1990s, which show continuing growth.

A worldwide decline in syndicated loan business has affected Jersey, but as a substitute, the island has been used for a few Euro-bond issues.

A particular growth area, however, is private banking for what is practically called, "high net worth individuals." Most major banks in the islands, such as Citibank, Chase, the Hongkong Bank, Bankers Trust and Marmacromers Hambros, now offer private banking services.

As an indication of the growth in asset protection, the Hongkong Bank recently established an international trustee group and chose Jersey as the financial control center for this global service. Its Jersey trustee company is second only to the one in Hong Kong in size.

Trusts and trustee services have always been an important feature of the islands' finance sector. There has been increased



Richard Le Sautour.

growth in this area following the introduction of a trusts law in Jersey in 1984. Guernsey does not yet have a law on trusts.

Jersey trust companies are so profitable that a number of outside financial institutions, such as the Hong Kong group, Jardine Matheson, have recently been buying into local companies and paying up to 10 times annual earnings.

Stockbrokers, such as James Capel, Hoare Govett, Sheppard and Buckmaster and Moore, which all have offices in the islands, have widened their horizons following "Big Bang" in the City of London, and James Capel (Jersey) Ltd., has recently announced that it was opening offices in Monaco and Gibraltar to service foreign residents. But because of immigration restrictions, brokers are being increasingly selective about what business they do in the islands.

For example, the Holborn Currency Fund, set up by the Prudential group to offer investment opportunities in leading currencies, is based in Bermuda but managed in Guernsey.

Nearly all of the 30 or so offshore funds investing in U.K. government securities are based in the Channel Islands, with the biggest MIM Britannia's Jersey Gift Fund, having more than £200 million under management.

The islands were also the first to develop "roll up" currency funds that effectively converted highly taxed income into lower taxed capital gains. These were so successful and popular with U.K. residents that the Inland Revenue stepped in and reduced their tax benefits for U.K. investors.

But this did not mark the end of the roll up investors, as some people had predicted, and overseas investors, particularly expatriates, concerned about currency fluctuations or wanting to take advantage of currency movements, have put millions of pounds into these funds.

The latest development is the umbrella fund, which was launched by Gartmore Fund Managers in Jersey in 1985 and since then has been copied by other groups. With a single investment, it allows cheap and convenient switching between various sub-funds concentrating on different investment markets.

Gartmore's Capital Strategy Fund, as it is called, offers 21 types of investment and has attracted more than \$500 million.

Another interesting development is the choice of Jersey as the headquarters for development capital specialists Berkeley Technology Ltd., which recently changed its name to Berkeley Govett after acquiring the U.K. investment group. It has used the island to launch several funds investing in U.K. emerging technology companies, including the first joint venture of its type with a large U.K. life insurance group.

Jersey and Guernsey funds are not restricted in their investments in the same way that U.K. authorized unit trusts are. However, according to Jersey's commercial relations officer, this does not mean that they are any less strictly supervised.

Jersey and Guernsey are now working on new legislation to protect investors in island-based funds, or any fund with island involvement.

This legislation is particularly necessary because of Britain's new Financial Services Act, which will restrict the marketing of collective investment plans in Britain to those that meet strict investor protection standards. The Channel Islands hope that

The islands were the first to develop 'roll up' currency funds that converted highly taxed income into lower taxed capital gains.

their laws will provide enough protection to satisfy U.K. authorities so that their funds can continue to be marketed in Britain.

They are also considering what to do when new standards are applied to collective investment plans in Europe.

"Jersey's regulatory objectives are and must often remain wider than those of larger countries," Mr. Syvret wrote recently in the Finance in Jersey publication.

The draft Collective Investment Schemes Law, which will shortly go to the Assembly of the States, Jersey's parliament, will prohibit any Jersey-based individual or institution from acting as a functioning of any investment plan wherever it is situated, unless it has permission from the island authorities.

In the case of a unit trust, both the manager and the trustee would be separate functionaries.

A similar law is planned for Guernsey, which has gone further by establishing a separate Financial Services Commission to supervise collective investment plans.

Peter Body

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STERLING	0.00	13.72	0.4885	26.08
US DOLLARS	0.00	48.90	1.7819	28062.78
CANADIAN DOLLARS	28062.78	122.74	1.0000	28000.00
DEUTSCHMARKS	42672.90	941.36	1.3728	310430.81
SWISS FRANC	0.00	19.24	1.1688	16.88
JAPANESE YEN	0.00	37628.00	115.4887	293.89
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Jersey vs. Guernsey: In Offshore Insurance, There Is No Competition

By Jane McLoughlin

ST. HELIER, Jersey—Although Jersey and Guernsey are competitive in many of the financial services they offer, there is no contest in the insurance business. In

Guernsey, this is an important sector generating about £200 million (\$320 million) in annual premiums; in Jersey, it is embryonic and thought unlikely to develop. It was not until 1983 that Jersey even allowed the incorporation of insurance companies, and even now it permits only those within

the captive business or involved in third party reinsurance. The concession was not aimed at tapping a new source of business but to enable the international financial groups on the island to offer a complete range of services. On Guernsey, though, insurance has been an important sector

since the early 1970s, and particularly in the last 10 years with the boom in the captive insurance industry. This has pushed Guernsey into the position of the world's third largest offshore insurance center, after Bermuda and the Cayman Islands.

Risk managers selecting a base for captive insurance operations were attracted to Guernsey because it is in the same time zone as London, where the world insurance business centers around Lloyd's of London. And the island offered the advantage of a quick set-up time. A recent newcomer to Jersey from the United States says that setting up an operation in London would take at least one year, but that it was in business within six weeks in Guernsey.

But tax advantages must still have played the greatest part in Guernsey's boom in captive insurance. This is the name given to insurance companies set up offshore by large industrial and commercial companies, primarily to insure the risks of the parent group.

In Guernsey, if an insurance company is a wholly owned subsidiary of another company and insures only the risks of its parent or other wholly owned subsidiaries, the tax administrators consider the insurance activities of a mutual nature and, thus, not taxable.

Risk managers were attracted to Guernsey because it is in the same time zone as Lloyd's in London.

Even when such a company does do third party insurance business as well, the underwriting profits of the two functions are split for tax purposes and the profits from mutual trading not subjected to tax.

The absence of value added tax can also keep down the normal costs in settling claims.

Exact figures on the numbers involved in Guernsey's captive insurance operations are not expected before the end of this year, when the regulatory effects of the 1986 Insurance Business Act will provide fuller information than companies have previously had to provide. Guernsey has had little formal infrastructure in regulating the insurance industry, and the figure of 170 companies is a best guess. But from Jan. 1 this year, insurance companies have been

obliged to register under the new act.

Late last year, the island states appointed their first supervisor of insurance business to be responsible for administering the new law. As well as registration, this requires companies to meet new regulations over the licensing of companies, capitalization, solvency, approval of officers and managers and inspection of accounts.

From now on, insurance companies must maintain a solvency margin of 18 percent for the first £5 million of premium income, and 75 percent must be invested in approved assets. These include equities and Eurobonds as well as bank deposit funds.

These regulations will make statutory a system of checks and balances that Guernsey's insurance business has operated volun-

tarily, with few obvious abuses, in recognition that its business reputation depends on integrity. But recently, several prestigious captive operations have set up in the Isle of Man rather than Guernsey. This reflects concern over a possible weakness among Guernsey's strengths in expertise and high-grade professional back-up from advocates, accountants and bankers. The question mark is over the availability of skilled, trained staff.

Many captive insurance companies can operate on a handful of staff, but the large projects like some of those moving to the Isle of Man—which include British Gas, Wimpey and Jaguar—may need 10 times the numbers. With a continuing policy to limit immigration—although this is not as onerous as in Jersey—and pressure on manpower available from a growing banking and trust sector, there is a fear that too much pressure could be put on the island's finite resources.

Guernsey's risk managers and insurance brokers are aware that they have to ally fears that the island has reached saturation point in order to attract continued growth in the captive market. Such companies will continue to seek a center like Guernsey where the jurisdiction does not force them to comply with all the requirements

of insurance law designed to protect members of the public. The lower costs involved (through savings on tax) are also attractive while terrorism and world political instability push insurance rates higher and higher in some classes.

And the business keeps coming. Sabre International, backed by Middle East and U.S. interests, has recently set up in Guernsey with fully paid up capital of \$10 million. It will concentrate on underwriting aviation business worldwide and will be managed by Transglobe Underwriting Management. The latter already manages Polygon Insurance, whose principal shareholders are the Scandinavian Airlines System, Swissair and KLM. This was originally a captive but now draws 90 percent of its net premium income from third party underwriting.

If Guernsey has been helped in its development as a center for captive insurance because Jersey never entered the race, then it will not suffer now from an increase in competition. Jersey's successful financial center is equally under pressure from lack of resources of trained technical staff. While making the most of existing business is the most obvious way to increase productivity and cope with growth, Guernsey has the insurance sector more or less to itself.



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Tax Haven: Fighting an Unwanted Label

By Edward Owen

ST. PETER PORT, Guernsey—Official spokesmen in Jersey and Guernsey insist that the islands should not be called tax havens because they have never manipulated fiscal policy to entice offshore business. Their low-tax economies, they say, have evolved naturally to serve the needs of small—and originally simple—communities.

If the islands have been sought out as refuges for the wealthy and as financial centers, it is argued, this has been done to the tax burdens imposed elsewhere, not to anything done locally, where income tax has been unaltered at 20 percent in Jersey since 1940 and in Guernsey since 1960.

Largely, this claim stands up, even if Guernsey's decision 27 years ago to drop its standard income tax rate from 5 shillings and 2 pence to Jersey's level of 4 shil-

lings to attract more retired Britons might be seen as a move to become a tax haven.

Recently, too, Guernsey has started giving tax-exempt status to locally managed offshore funds, and in both islands the tax laws have clearly been interpreted in a way very helpful to offshore financiers.

Historically, however, the Channel Islands' emergence as financial centers owed much more to Jersey's abolition in 1962 of a usury law restricting interest rates to 5 percent than to any fiscal contrivance.

The islands' tax structure is uncomplicated. Income tax is charged at 20 percent both on corporations and individuals, regardless of the level of earnings, and there are no capital taxes, death duties or other levies.

Companies can apply to be treated either as controlled within Jersey, Guernsey or Alderney (Sark is a separate entity) with liability to local income tax, or as nonresident, paying only a £500 (\$800) annual fee known as corporation tax.

The tax was raised to £500 this year after standing at £300 since

1974. The increase brought dire warnings of corporate business migrating to cheaper jurisdictions, such as Panama, but so far this does not seem to have happened. The decision to raise corporation tax was taken in consultation with the Isle of Man, though that rival offshore center has undercut the Channel Islands by 250.

The feudal Isle of Sark, which has no income tax and no company registration, nevertheless, features largely in the Channel Islands' finance business because of the corporation-tax system. To claim nonresidency, companies must have a majority of nonlocal directors and hold board meetings outside the fiscal area.

Sark has proved an ideally convenient location for this purpose, and quite a few of its 520 inhabitants make comfortable incomes by acting as directors and signing papers for visiting bankers, lawyers and accountants.

Many financiers in Jersey and Guernsey are worried about the bad international publicity caused by this so-called "Sark Lark" and have urged the authorities to end this by giving nonresident compa-

nies straightforward tax-exempt status.

Two hallowed principles govern Channel Islands budgetary policy: not to raise income tax and not to run into national debt.

Virtually the only negotiable factor is the rate of indirect tax—the duties of *impôts* levied on liquor, tobacco and fuel, which the islands have managed to keep well below the U.K. level.

Reflecting its prosperity, Jersey has been generous with income tax allowances and islanders do better in this respect than their U.K. counterparts.

A married couple with two children can earn up to \$3,800 without paying tax. Guernsey, whose tax rates also apply to Alderney, decided it could not afford to improve allowances in 1984, but was able to do so in the past two years to bring the tax exemption level for a couple with two children to £8,200.

The buoyant tax revenues generated by the finance boom—which the islands have repeatedly underestimated—have allowed Jersey to build up a strategic reserve fund over the past two years

of £20 million, bringing total reserves to £72 million.

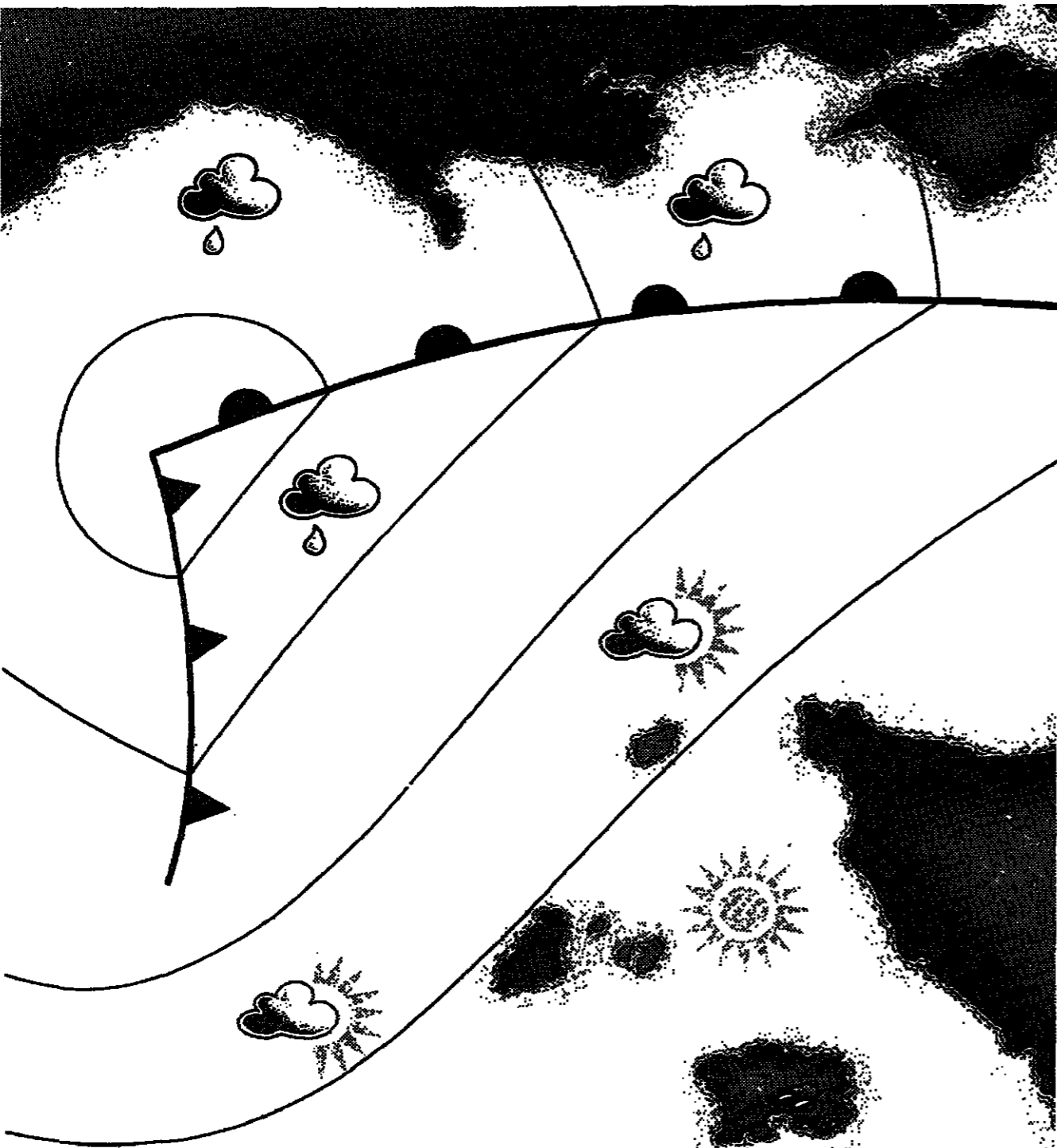
Guernsey has recently added £5 million to a contingency fund started last year with £2.5 million. The aim of both islands is to have "rainy day" reserves amounting to 50 percent of gross revenue expenditure.

Public projects, such as a current £16 million land reclamation project in Guernsey or harbor extensions costing £15 million in Jersey, are normally financed out of accumulated funds.

Guernsey's Post Office, Telecommunications Board and Electricity Board are run virtually as trading corporations.

The prudent Channel Islands, which see budgeting for a surplus as a safeguard of independence, seldom have recourse to the commercial money market. One of the occasions is likely to be for a projected electricity cable link between Guernsey and France, where the Electricity Board plans to seek a syndicated loan of up to £26 million from local banks.

EDWARD OWEN is a financial journalist based in Guernsey.



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July 1, 1987

Protecting Assets

Trusts Bolster Fund Management

By Jane McLoughlin

ST. HELIER, Jersey — Jersey has no capital gains tax, no wealth tax, no stamp duty on the creation of a trust, which can help the wealthy who are subject to some or all of them in their own countries to mitigate their liability.

In the United Kingdom, the Channel Islands have long been seen as tax havens both before and after death. This is why, before the doors were virtually closed on immigration, a number of wealthy Britons went to live in Jersey. But more recently, with new residents restricted to five members of the "million minimum club" a year, Jersey has developed a booming business in helping accredited investors protect their assets against tax through Jersey trusts.

As long as one of the minimum two trustees is resident in Jersey, and both the settlor and the beneficiaries of the trust are not, such trusts effectively avoid any tax at all.

At the same time, the trust offers anonymity, useful where declaration of wealth by settlor or beneficiary is required under exchange control regulations (the trust document does not have to be stamped or registered, and the identity of neither settlor nor beneficiary is made public). But most important of all to the high network clientele that Jersey attracts, the settlor can, through a letter of wishes, effectively retain control over the administration of his assets.

Jersey has thus developed a concept of trusts that has introduced the idea to Europeans who, unlike the British, had traditionally made little use of them. The advantage of having assets located in a Jersey trust is that it is not subject to the laws of the country where the settlor lives. This is not just in terms of death duties. Some countries, such as Spain, have strict rules on how money should pass to people within families, regardless of the wishes of the deceased. With a trust in Jersey, there is no need for probate; the trust simply continues as before.

In 1984, Jersey introduced its first Trust Law, in order to cover the requirements of the British Financial Services Act of 1986 and the European Community's Fifth Directive on Undertakings for Collective Investment in Transferable Securities. This makes statutory standards of administration, which the Jersey Assembly of the States' careful screening of practitioners already met. However, the aim was perhaps more to deal with the "retail" side of trust administration, unit trust and fund management.

Since Jersey trusts have developed into a convenient way of controlling assets through trustees, there has been a considerable increase in the fund management business. Such a clientele is usually wealthy, for with assets of less

than £100,000 (\$160,000), the annual fees of about 10 percent invalidate the tax advantages. But the anticipated growth in this aspect of fund management depends entirely on Jersey satisfying the legal requirements for designated territory status so that its unit trust funds are marketable in Britain and the EC.

So far, Jersey has been able to market unit trust funds in Britain by circumventing the regulations in the form of open-ended trust companies, which could have the prospectuses and shares that made them marketable in Britain. But this method of marketing offshore funded companies will be stopped later this year, and Jersey's continuing business depends on being accepted under the new rules.

This sector has grown fast through Jersey's flexible response to the changing demands of

and thus avoid being locked into a particular falling market.

Clearly, in such a climate maximizing the potential of unit trusts depends on new technology. Stockbrokers, many of them branch offices of the famous London names, have moved to Jersey with the advantages of a link with the stock exchange electronic marketplace; the merchant banks, and the big international names in unit trusts on Jersey have the latest research information and market movements from overseas headquarters on the wire. The fund management sector depends on ever more sophisticated computer systems and this leads to the universal outcry in Jersey: trained staff.

Indeed, staffing limitations on the island are already creating Big Bang scale pressure on

Jersey has developed a concept of trusts that has introduced the idea to Europeans, who had traditionally made little use of them.

its clientele over the last 10 years, including quite modest individual investors hoping to maximize their capital, as well as the multi-million portfolios. Jersey company law — or lack of it — allowed the development of investment vehicles that could not have been considered offshore under U.K. law. The unit trust sector, for instance, has made much of the running in the creation of new financial products.

Most recent developments have been the multiclass and umbrella funds. Originally, investors put their money in funds designated in any one of 20 or more different market sectors — bonds, international fixed interest securities, British government stocks and currency funds — and the funds were managed specifically in these sectors. The multiclass system makes it possible to switch between sectors — say from fixed interest to equity — without the transfer paperwork that had previously justified a 5 percent charge for each shift.

There is also the tax aspect that switches between funds or companies is liable to capital gains tax in the United Kingdom, but, from paper to paper, it is a conversion within the same fund, so not chargeable. Similarly, the umbrella fund concept enables the investor to switch between sub-funds under the umbrella

salaries and executive searches. The logical progression is probably rationalization of existing services, so stockbrokers, for instance, may eventually extend their financial scope into trustee and fund management services.

Movement toward integration of existing finite resources is dedicated to growth. Growth and survival are the same thing to Jersey unit trust managers. In the near future, they will surely have to offer a round-the-clock service to investors, for instance. They will have to do this through increased productivity from existing staffing levels. But Jersey's reputation in fund management is based on skill in the art of the possible.

"The concept of trusts developed in Jersey is very different from more hidebound financial centers," says Ivor Mills of Royal Trust. "This is because the settlor can still influence the trustees in action they may pursue. While he is legally dissociated from his money, in reality there is a wide interpretation on the realm of proper trusteeship. Our offshore trust market is quite deep and growing, and tends to look for answers to problems in protecting capital. This is clearly tax mitigation, not avoidance. Our industry in Jersey must depend on the integrity of institutions."

Corporation Taxes

'Sark Lark' Blurs Financial Image

ST. HELIER, Jersey — Jersey owes much of its current (and potential) success in competing for the wealthy world's financial business to its clean image. Where scandals have rocked other financial centers — and may even have brushed against Jersey banks by association — they have been scrubbed clean by the policy of the States (governing body) and the private sector's self-disciplining.

On this basis, there is a considerable head of steam building up against what many believe damages the purity of Jersey's financial sector image: concern about the system of corporation tax companies concentrated on the so-called "Sark Lark."

There are some 9,000 corporation tax companies operating from Jersey. They are companies registered there, involving initial incorporation fees of perhaps £300 (\$1,440), but they do not trade there. As long as a company is set up and controlled by people outside Jersey, it is not subject to Jersey (or any other) income tax, only to an annual £500 corporation tax.

One of the conditions in operating such a company is that directors are nonresident in Jersey and board meetings are held outside the island. Hence the Sark Lark. Over the years, the custom has grown of recruiting among the 520 residents of the conveniently close but fiscally independent island of Sark for nominal directors of these Jersey-registered corporation tax companies. The earnings of Sark fishermen, hotelkeepers and housewives can be boosted by several thousand pounds a year, with no more onerous duties than signing their name to a few papers and playing hosts at the annual brief token visit of outsiders for the board meeting.

The Sark Lark does not necessarily imply any kind of malpractice. If the board meetings were not held in Sark, it would be somewhere else outside Jersey. It is rather a question of retaining what is ultimately a bit of a sham when Jersey has otherwise left far behind the old association with the tax-haven image. But a 200-page discussion draft of a proposed new company law to be enacted later this year does include a question mark over the future of the Sark Lark.

There have been proposals before to reform the tax system as it applies to corporation tax companies. But these companies provide Jersey with considerable revenue from registration fees and the annual corporation tax, which was increased this year from £300 to £500.

The States' economic adviser, John Powell, writes in his annual financial report on the economy that "adjusting the present rate of tax, fixed in 1974, for inflation, would suggest a tax of £1,060." It is hard to see that this is not unreasonable, but the feeling in Jersey is

that this would encourage such companies to register instead in Liberia or Panama, with consequent loss of revenue to the Jersey Exchequer.

One way out that has some support locally is for all foreign-owned companies, including those registered and controlled in Jersey, to be exempted from Jersey's 20 percent income tax. This would end the Sark Lark, since the corporation tax companies could then hold their board meetings in Jersey, which would boost profits for the island's hoteliers, shops and restaurants.

But there would be a considerable loss of income tax revenue from the resident Jersey companies that could claim exemption. There are many reasons for incorporating a company in Jersey, even if it is not a corporation tax company, including the speed with which the process can be accomplished, usually within five working days. And income tax revenue lost by exempting resident Jersey companies would have to come from somewhere, inevitably increasing the pressure on Jersey residents already hard pressed to fulfill the growing demands of an expanding financial sector, new technology and training.

Bob Gaiger, Jersey's comptroller of income tax, has said publicly that he does not believe corporation tax companies should be able to have tax-free status and enjoy all the benefits of tax-paying companies. But he argued recently that the Sark Lark is a product of the private sector and that the private sector should perhaps put its own house in order and not look to the States for a solution.

The discussion document issued by the States in August last year and sent out to interested parties for comment before the new Company Law is finally drafted does invite consideration of measures covering corporation tax companies. At present, though all companies have to file annual returns to the Registrar, their accounts do not have to be audited and there is no statutory machinery for these to be filed on any public record.

The discussion document is not very specific at this stage. If the law is enacted, it would mean that the Jersey Court would be given the power to disqualify "unfit" directors of companies. The States would have power to make regulations concerning transactions between companies and their directors and disclosure of their transactions to other directors and shareholders where necessary. These measures could perhaps provide closer scrutiny of corporation tax companies.

Comment is also invited on various areas where the States could enact subordinate legislation to regulate the public accountability of companies — for instance, concerning the form and contents of

accounts and the qualifications of auditors.

It is conceivable that the new company law, when it is finalized, will leave open the question of the Sark Lark. The question then will

be when and if the States should or would enact "subordinate legislation" regulating corporation tax companies that might end the Sark Lark. Jane McLoughlin

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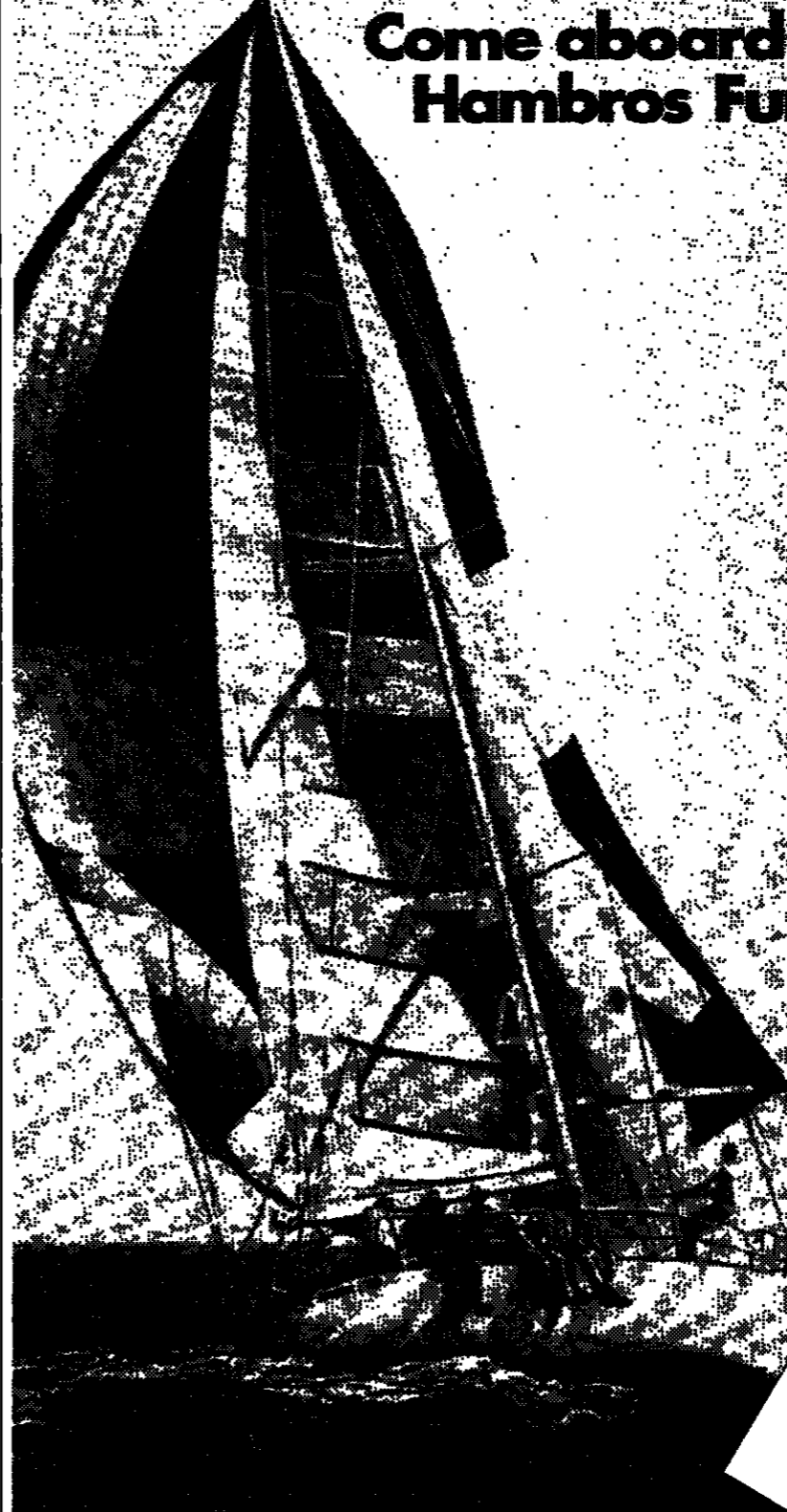
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Light Industry a Base for Exports

By Wills Murray

ST. PETER PORT, Guernsey — The traditional picture of Guernsey as a holiday island chiefly concerned with growing tomatoes and flowers has been changed in the past decade.

A campaign to sell the island to manufacturers in Britain and the United States as a base for light industry has developed an export business that was worth £80 million (\$120 million) last year. Electronics firms accounted for over 65 per cent of that figure. By comparison, horticultural exports brought in £30 million.

Since the end of the 1970s, faced with rising job losses through the decline of horticulture, the island has spent more than £1 million in Britain and the United States in a bid to broaden its economic base. The American electronics instrument manufacturer Tektronix, which has been operating in Guernsey for more than 25 years

and is the largest private employer, with a work force of 330, was seen as the desirable type of plant.

The island set out to attract similar, but smaller, units producing high-value, low-volume products that would pose no threat to the local environment.

In 1984, a separate government body was set up to coordinate and monitor the manufacturing sector. The Board of Trade and Industry is responsible for screening applications, smoothing the way for firms that see the island as a potential base and ensuring that suitable sites are available for them.

Local MP David Evans, president of the board, and John Dempster, chief executive of its secretariat, acted as Guernsey's salesmen last year on a week's promotional tour of California.

Their mission followed two to California in 1984 and two to the eastern United States in 1985, all of them backed by advertising campaigns and media interviews.

Among the direct results have been the setting up of a plant in the island by the California-based electronics company Texmate and a decision by the multinational Nashua Corp. to move its world distribution headquarters in 1985 from Bermuda to Guernsey.

The island's advantages for branch plants or relocation include its 20 per cent level of income tax on both business profits and personal earnings, low rates on industrial property and a good labor record. The Channel Islands' special relationship with the European Community means that they enjoy free trade with the Common Market while being exempt from more onerous provisions such as the value added tax.

What incoming business executives particularly appreciate is the absence of red tape and the willingness of the island authorities to pull out all the stops to help sort out any initial problems.

There are now about 80 units of light industry, embracing engineering, printing, boat-building, textiles, food and drink, furniture and crafts, as well as electronics. The last sector provides the most jobs, but the knitwear firm of Le Tricotier, a home-grown enterprise, employs 80 full-time workers and more than 500 home finishers.

But now, a manpower shortage has forced the Board of Trade and Industry to rethink its strategy. A proposed campaign in the United States last autumn was cut back, and the board sees its role for the present as a holding operation.



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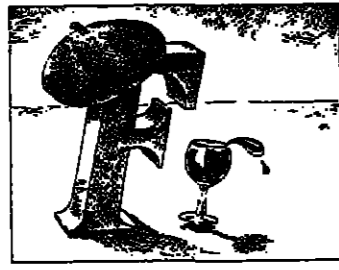
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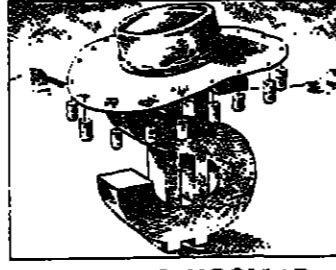
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Growth Fuels Jobs Dilemma

By Edward Owen

ST. PETER PORT, Guernsey — The two larger Channel Islands have a problem that many countries would envy: how to fill all the job vacancies being created by business growth.

As Jersey's chancellor, Senator Reg Jeune, and his Guernsey counterpart Councillor Roydon Falla, both agree, the islands are lucky to have such a problem, particularly since only four years ago Guernsey was worrying about rising unemployment due to the decline of its tomato industry.

The dilemma for the politicians, however, is that the already heavily populated Channel Islands are committed to limiting the number of outsiders allowed in to service their expanding economies.

Slowing down the rate of immigration has been official policy for some years. However, it became a priority issue following last year's census, which showed that since 1981 Jersey's population had grown by 5.2 per cent to 80,212 and Guernsey's by 4.1 per cent to 55,482.

Both increases were well above expectations, and they were attributed almost entirely to immigration caused directly or indirectly by the financial boom.

The resulting prosperity has enabled the islands to maintain high investment in social services and capital projects and ensure well-paid jobs for their inhabitants. For example, car ownership is well above the U.K. level. But it has also led to pressure on housing and land and has pushed up wage levels and administrative costs.

In the first four months of this year, housing prices in Guernsey were nearly 40 per cent higher than in 1986 and, according to Elizabeth Lincoln, president of the Housing Authority, young couples are being forced to move to the U.K. mainland because they can no longer afford to buy locally.

The jobs market is showing similar strains since the salaries and "perks" offered by the finance sector cannot be matched by other businesses. Guernsey's bus ser-

The dilemma is that the already heavily populated Channel Islands are committed to limiting the number of outsiders allowed in to service their expanding industries.

VICES, for instance, have been cut back this summer because the operator could not find drivers.

The politicians, therefore, must figure out how to slow down the economic machine without putting on the brakes so hard that it begins to backslide.

Controlling immigration is an equally tricky question since the Channel Islands form a common travel area with the U.K. mainland, allowing unrestricted movement each way. This is a centuries-old right that the islands would be loath to jeopardize by imposing, say, frontier checks on U.K. citizens.

At present, Jersey is trying to control immigration through housing restrictions and through its Regulation of Undertakings and Development Law. This law was enacted in 1973 specifically to limit the creation of job opportunities.

Broadly speaking, nonislanders can occupy houses or apartments only if they qualify as "essential" to the community or are wealthy enough to pay a substantial amount of tax. Both categories are confined to certain price brackets. The Regulation of Undertakings Law governs the setting up and expansion of businesses and building development. Following the 1986 census, its provisions are being considerably tightened.

Until now business expansion has been controlled by licensing extra floor space, but the law is to be amended to license staff growth as well. The president of the Jersey Chamber of Commerce, Ian Barnes, warned that this will lead to "significant poaching of skilled staff."



Although the industry has declined in importance, tomatoes are still grown in large quantities on Guernsey.

It has also been agreed that the maximum number of wealthy settlers admitted annually should be reduced from 15 to five and that "essential" employee licenses should increasingly be granted for a limited period only.

Guernsey has only one instrument for controlling immigration from Britain — its housing law. This divides properties into about 1,800 higher priced houses and apartments freely available to nonislanders with the remainder reserved for local people or those holding "essential" licenses.

Guernsey's politicians are awaiting the results of an economic appraisal commissioned from consultants Peat Marwick Mitchell before deciding what steps to take to curb immigration.

At one time the island had seemed ready to introduce a regulation of undertakings law like Jersey's, but it has had second thoughts. Since unemployment is only a recent phenomenon, Guernsey's politicians are particularly nervous about making any move that might jeopardize economic growth.

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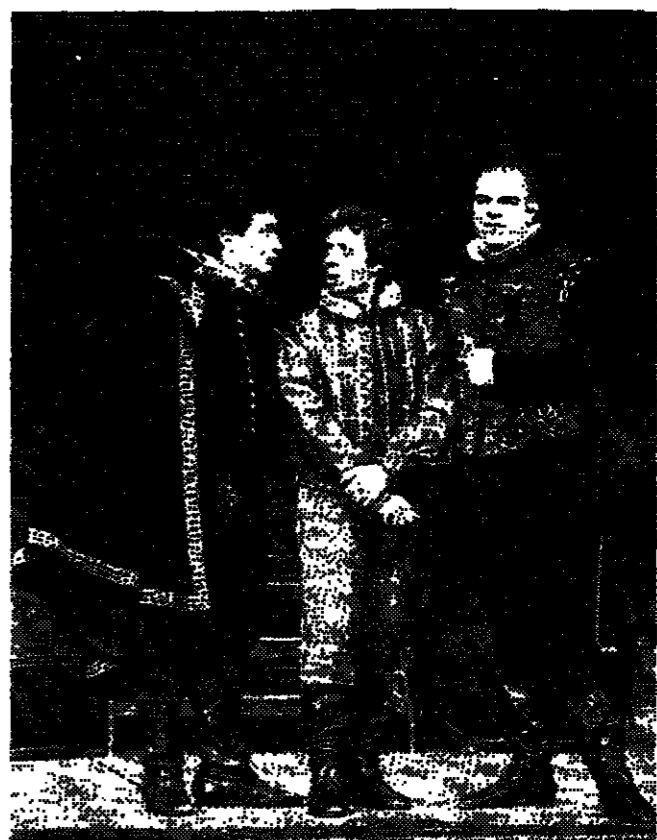
Rosencrantz & Guildenstern Are Back

By Sheridan Morley
International Herald Tribune
LONDON — "Rosencrantz and Guildenstern Are Dead" was the play that first made Tom Stoppard's name...

THE LONDON STAGE

of two celebrated alternative comedians known as the Oblivion Boys. Stephen Frost, who plays Rosencrantz or possibly Guildenstern, since confusion even about that is at the heart of Stoppard's comedy...

To have four actors on a small and somewhat bare stage playing 20 of the characters in Charles Dickens's "Hard Times" for a two-hour digest of the book might seem impossibly foolhardy...



Stephen Frost, Rosencrantz, Lionel Blair, First Player, and Mark Arden, Guildenstern.



Left, Adam and Eve in Martha Clarke's ballet; right, detail from "The Musician's Hell" by Bosch.



Animation of 'Earthly Delights'

By John Russell
New York Times Service
NEW YORK — It is the prerogative of great paintings that, as Vincent van Gogh once wrote, they "keep their calm even in the midst of catastrophe."

But some of them present a terrible temptation. What if they have a scenographic potential that hampers us? What would it be like to bring one of those paintings to a different dimension of life? Shouldn't we know them better, enjoy them more, be more intimately a part of them?

As everyone knows, the Bosch triptych has a cast of thousands, many of whom get into deep trouble by the time the artist has done with them. It also has an animal kingdom as heterogeneous as any that has been set down on canvas.

All the way from the Garden of Eden to a particularly vindictive version of Hell, Bosch marshals a range of concepts that would tax the combined talents of Max Reinhardt among stage directors, Luis Buñuel among movie makers and Hector Berlioz among masters of tone-painting in music.

Greenwood, and the roster of Clarke's resources is complete. It therefore goes without saying that she has had to cut, edit, condense, foreshorten. Vast episodes vanish as if they had never been. Strange pageanters, likewise. Landscapes as big as all Kenya had to go.

But it is not lost. Nor is it betrayed. What Clarke has done is to work from feeling, and from her own personal magic, rather than as copyist or exegete. A first example will show how it works. The left-hand panel of the Bosch triptych is relatively tranquil in tone.

Perhaps it is in the "musicians' hell" in the concluding section that Bosch was longest on feeling, as well as in sardonic invention. And perhaps it is there that Clarke hews closest to Bosch and yet is, paradoxically, most herself.

primal scene. "This is how it must have been," we say to ourselves. Adam and Eve don't "dance." They don't "act." But they give us the heart of the matter.

That they can do this is owed in part to Peaslee's seraphic, memorable double at the Stratford Festival in Ontario last summer; you now stage "Rosencrantz" in repertoire with the real "Hamlet," it seems virtually impossible to find a Claudius or a Gertrude or an Ophelia or even a Hamlet who will add the correct weight and mystery to Stoppard's play, since in that they are such very minor characters.

If they are played, as here, like walk-on extras, then the central Stoppard joke falls apart. Only Lionel Blair as a rightly camp and tacky First Player is able to give Frost and Arden a run for their laughs. As a result the comedy becomes entirely about them, whereas it should also be rooted in the incomprehensible royal events going on just out of their reach around the court.

Perhaps it is in the "musicians' hell" in the concluding section that Bosch was longest on feeling, as well as in sardonic invention. And perhaps it is there that Clarke hews closest to Bosch and yet is, paradoxically, most herself.

Ingmar Bergman's second offering to the National Theatre from the Royal Dramatic Theatre of Stockholm was a "Miss Julie" originally notable for its restraint after the massive liberties he took with "Hamlet" a few nights earlier. Peter Stormare again played a central role, the valet Jean, but in total contrast to his Prince of Denmark this was a performance strictly limited by its text and indeed almost self-effacing in relation to the properly arrogant title-role playing of Marie Goranzon.

There are other moral debates at the heart of this script, at times so many that the play is apt to get as lost as the missionary lady. Apart from the two reporters (Robert Urquhart in fine, shambling form as

the shaggy Cameron figure, and Nicholas Grace as the sharply ambitious opportunist from the Times), we are also introduced to an amiably cynical priest (Alfred Molina) who seems to have drifted in from a minor Graham Greene novel, plus British and American ambassadors of considerable self-interest, not to mention the drug-addicted daughter of one of them, and a highly sinister local businessman.

Hughes has a moral or political issue to raise with each of his characters, and it is usually concerned with corrupt occupation, whether of whole nations or merely of people's lives. "Jenkin's Ear" is about American political colonization and English diplomatic and journalistic uncertainties, but in the end it settles into a vastly more simplistic cliffhanger about whether the missing lady will escape or die, and to what extent her fate will be determined by the honor of journalists.

It is some tribute to David Hayman's brisk production that the thriller is kept alive long enough to give the play surrounding it a shape and narrative drive that is often threatened by its habit of going off at frequent if usually intriguing dialectic tangents.

DOONESBURY



The Daily Source for International Investors.

U.S. 'Colorization' Ruling

WASHINGTON — The Library of Congress, which has jurisdiction over copyrights, has ruled that colored versions of black-and-white movies are eligible for copyright protection as "derivative work" under many circumstances.

Although the decision does not address the moral or artistic arguments, it is a setback for actors, directors and producers who have opposed film coloring on those grounds. Congress has been asked to deal with the question whether coloring might be blocked on moral or artistic grounds.

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Tuesday's NYSE Closing Via The Associated Press logo and text.

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Dow Posts First Loss in 2 Weeks

NEW YORK — Prices on the New York Stock Exchange ended lower Tuesday for the first time in more than two weeks as weakness in the dollar and bond markets triggered profit-taking and futures-related sell programs.

Rothschild Holdings Inc. "We were overdue for some form of profit-taking." Jim Andrews, a vice president in charge of institutional trading at Philadelphia-based Janney Montgomery Scott Inc. said that activity continued to center on the large-capitalization stocks favored by money managers and other big investors.

But he added that the market was "still hostage to the dollar, when the dollar falls off, so do stocks." AT&T was the most active NYSE-listed issue, losing 1/2 to 28 1/2.

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12 Month High Low Stock table with columns: High, Low, Stock, Div, Yld, PE, etc.

(Continued on next page)

Tuesday's NYSE Closing

Tables include the nationwide prices to the closing on Wall Street and do not reflect late trading elsewhere.

Table with columns: 12 Month High, Low, Stock, Div. Yrs. PE, % Chg. Includes various stock listings.

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Table with columns: 12 Month High, Low, Stock, Div. Yrs. PE, % Chg. Includes various stock listings.

U.S. Futures Via The Associated Press

Table with columns: Season High, Season Low, Open, High, Low, Close, Chg. Includes Wheat, Corn, Soybean, etc.

Table with columns: Season High, Season Low, Open, High, Low, Close, Chg. Includes Livestock, Cattle, Hogs, etc.

Currency Options

Table with columns: Philadelphia Exchange, Options, Strike, Calls, Puts, Price.

Table with columns: Philadelphia Exchange, Options, Strike, Calls, Puts, Price.

Table with columns: Philadelphia Exchange, Options, Strike, Calls, Puts, Price.

Food

Table with columns: Season High, Season Low, Open, High, Low, Close, Chg. Includes Coffee, Sugar, etc.

Table with columns: Season High, Season Low, Open, High, Low, Close, Chg. Includes Metals, Copper, Silver, etc.

Financial

Table with columns: US T. Bills, Treasury Bonds, etc.

Table with columns: US T. Bills, Treasury Bonds, etc.

Table with columns: US T. Bills, Treasury Bonds, etc.

EURODOLLARS (IMM)

Table with columns: Season High, Season Low, Open, High, Low, Close, Chg. Includes various Eurodollars.

Table with columns: Season High, Season Low, Open, High, Low, Close, Chg. Includes various Eurodollars.

Stock Indexes

Table with columns: SP Comp. Index, NYSE Comp. Index, etc.

Table with columns: SP Comp. Index, NYSE Comp. Index, etc.

Table with columns: SP Comp. Index, NYSE Comp. Index, etc.

Company Results

Table with columns: Company Name, Revenue, Net Income, EPS, etc.

Shearson Agrees to SEC Censure For Violations on Clients' Stock

TFT's Owner Warns Investors About Sale

Paris Commodities

London Commodities

Dividends

Spot Commodities

DM Futures Options

US Treasuries

NCR Program Speeds Chip Design

London Metals

More Car Imports Expected in China

Lloyd's Boosts Rates For Shipping to Kuwait

Large vertical advertisement on the right edge of the page, partially cut off.

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BUSINESS ROUNDUP

Olivetti Sees Lower Net Profit for '87

By David Brown
Special to the Herald Tribune
IVREA, Italy — Olivetti SpA, the Italian computer and office products group, will post a decline in consolidated net profit this year after nine years of uninterrupted earnings growth, its chairman, Carlo de Benedetti, predicted Tuesday.

Olivetti reported group net profit of 565.5 billion lire (\$4.27 billion at current rates) last year. The company said that group revenues, including sales by its new Triumph Adler typewriter unit, fell 2 percent to 2.49 trillion lire in the first five months of this year from 2.55 trillion lire in the comparable period of 1986.

Revising a previous forecast, Mr. de Benedetti warned shareholders that Olivetti's North American personal computer sales would plummet this year to fewer than 40,000 units from 210,000 units in 1986. It was the company's first acknowledgment that Olivetti's disappointing alliance with American Telephone & Telegraph Co. was beginning to hurt its earnings.

Mr. de Benedetti said that Volkswagen had agreed to shoulder unspecified Triumph Adler losses this year in excess of the 50 to 100 billion lire that Olivetti plans to cover. He said that Olivetti would develop and produce AT&T's personal computers for the U.S. market.

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Joint Venture Aims to Track Vehicles in Europe With Satellite by 1991

By Axel Krause
International Herald Tribune
PARIS — France's space agency and a group of West European and U.S. companies have established a new satellite communications service that can locate trucks, railroad cars, small aircraft and boats with an accuracy of 100 meters (330 feet).

Market studies have projected that Loostar could have up to 800,000 users within 10 years. The program will depend on getting government approval and radio frequencies in European countries, as well as a slot on Europe's Ariane satellite launcher.

DAYTON: Bogus Bid Sways Stock

(Continued from first finance page)
men for Dayton Hudson said the company had received no offer and declined to comment further. Richard Miller, president of Capital Management, said he fired Mr. Herringer after overbearing him link the firm to the offer for Dayton Hudson.

HACHETTE S.A. GENERAL ASSEMBLY OF SHAREHOLDERS

1986 has been a year of achievement for Hachette in three respects. First, the Group's trading results reached a record level, amounting to F.fr. 215.7 million prior to appreciation and depreciation, and to F.fr. 405.8 million following adjustment.

Court Ruling Seems to Boost Harcourt's Fight Against Bid

NEW YORK — A Florida judge has ruled that bondholders of Harcourt Brace Jovanovich Inc. have the right to convert their debentures to common stock, but for fewer shares than they hoped to receive.

Salomon Brothers owns 21,978 debentures, which it sought to convert into about 22 million shares, majoring it around 36 percent of Harcourt's stock.

Monday's ruling clears a major obstacle to the recapitalization plan. When it agreed to pay a \$40 cash dividend to shareholders as part of the plan, Harcourt contended that as a result of the recapitalization, the debentures were not convertible into common stock.

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Unveils New Computers

Olivetti said, meanwhile, that it would launch a major line of new personal computers using the powerful Intel 80386 chip, as well as software and other products, in the third and fourth quarters of this year, Reuters reported.

It said it would offer three versions of the new M-380 for the higher end of the PC market. It said that the M-380 was suitable for use in local area networks or as a stand-alone PC for applications needing high processing power and speed.

It also unveiled the M-280, a midrange model with higher power than expands its current M28 and M-285F product lines. Officials declined to give price ranges of all the new machines, saying they would be determined in local markets.

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REPUBLIC CLEARING CORPORATION
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GOLD & SILVER CURRENCIES FINANCIAL INSTRUMENTS STOCK INDEXES

Asia Pacific Growth Fund
Weekly net asset value on 19-6-1987 U.S. \$7.42
Listed on the Amsterdam Stock Exchange

BAe Wins Huge, But Tentative, Jet Order

By Warren Gerler
International Herald Tribune
LONDON — British Aerospace PLC said Tuesday that it had received a tentative order for 72 of its "Quiet Trader" cargo jets — its entire expected output for the next five years — from Australian-based TNT Transport Group.

The agreement, with a potential value of \$1.5 billion, would be the largest single commercial aircraft sale in British Aerospace's history. The announcement pushed BAE shares up 20 pence, to 574 pence, in heavy trading on the London Stock Exchange Tuesday.

The plane's engines are built by Avco Lycoming, a subsidiary of U.S.-based Textron Inc. Sir Raymond Lygo, BAE's chief executive, said the prospective sale was a major fillip to BAE's commercial aircraft division, which has invested more than £300 million (currently \$477 million) in the cargo-jet project since the plane's launch in 1985.

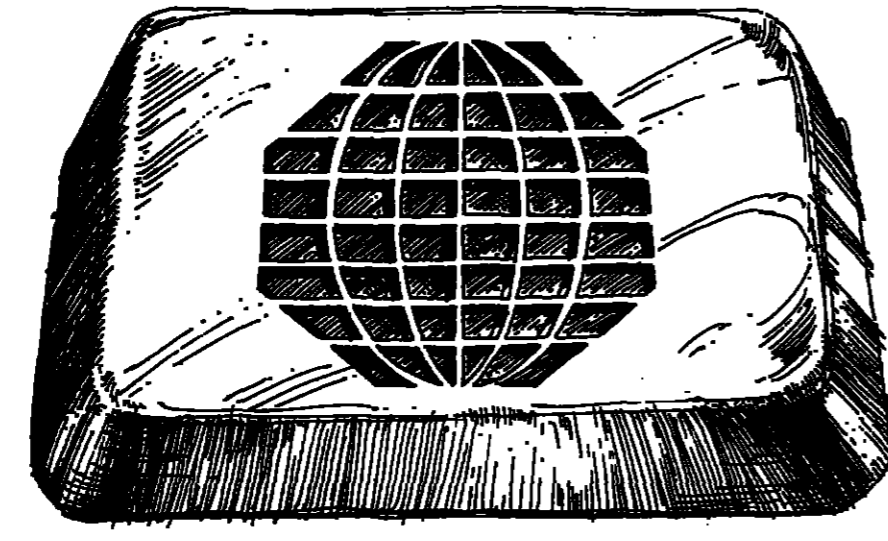
Only six 146-QTs have been sold so far, all to TNT. Only one is in service, employed on a TNT nighty delivery schedule linking Scotland, Northern Ireland, England and West Germany.

The 146-QT was developed as a cargo derivative of the BAE 146 four-engine passenger jet that carries 85 to 100 passengers. BAE has received about 90 orders for the passenger jet, mostly from U.S. regional carriers, including 24 bought by Pacific Southwest Airlines.

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ED&F Man International Ltd. Funds Group, Licensed Dealer in Securities, Sugar Quay, Lower Thames Street, London EC3R 6DU. Tel: 01-626 8788 Telex: 885431 EDFMAN G

Tuesday's AMEX Closing

Tables include the nationwide prices up to the closing on Wall Street and do not reflect late trades elsewhere. Via The Associated Press

12 Month High	Low	Div. Yld. PE	Stk.	High	Low	Close	Chg.
10	34	ABN	1.20	18	102	102	+1
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INTERNATIONAL FUNDS (Quotations Supplied by Funds Listed) 23rd June 1987

Net asset value quotations are supplied by the Funds listed with the exception of some quotes based on issue price. The marginal symbols indicate frequency of quotations supplied: (d) - daily; (w) - weekly; (b) - bi-monthly; (r) - quarterly; (l) - irregularly.

Fund Name	Unit Price	Change
ALMAL MANAGEMENT	\$ 264.0	
ALPAC FINANCIAL CORP.	\$ 114.0	
AMERICAN INVESTMENT	\$ 114.0	
AMERICAN INVESTMENT	\$ 114.0	
AMERICAN INVESTMENT	\$ 114.0	

Other Funds

Fund Name	Unit Price	Change
ALPAC FINANCIAL CORP.	\$ 114.0	
AMERICAN INVESTMENT	\$ 114.0	
AMERICAN INVESTMENT	\$ 114.0	
AMERICAN INVESTMENT	\$ 114.0	
AMERICAN INVESTMENT	\$ 114.0	

Floating-Rate Notes

Issuer/Note	Rate	Term
Alcoa Floating Rate	7.25%	30 days
Alcoa Floating Rate	7.25%	30 days
Alcoa Floating Rate	7.25%	30 days
Alcoa Floating Rate	7.25%	30 days
Alcoa Floating Rate	7.25%	30 days

Deutsche Mark

Instrument	Rate	Term
Deutsche Mark	7.25%	30 days
Deutsche Mark	7.25%	30 days
Deutsche Mark	7.25%	30 days
Deutsche Mark	7.25%	30 days
Deutsche Mark	7.25%	30 days

Japanese Yen

Instrument	Rate	Term
Japanese Yen	7.25%	30 days
Japanese Yen	7.25%	30 days
Japanese Yen	7.25%	30 days
Japanese Yen	7.25%	30 days
Japanese Yen	7.25%	30 days

Pounds Sterling

Instrument	Rate	Term
Pounds Sterling	7.25%	30 days
Pounds Sterling	7.25%	30 days
Pounds Sterling	7.25%	30 days
Pounds Sterling	7.25%	30 days
Pounds Sterling	7.25%	30 days

DOLLAR

Bankers

100

Pr

CURRENCY MARKETS

DOLLAR: A Split Emerges on Whether Slump Is Over

(Continued from Page 1)

said, from the overwhelming bearishness that has dominated the market for months. Dealers taking a positive view of the dollar cited progress in reducing the U.S. budget and trade deficits, as well as relatively high U.S. interest rates and other signs that the economy is gaining strength. "I think we've seen the lowest point for this year," said a dealer for an American bank in Frankfurt. "While there are negative factors that will keep the dollar from climbing dramatically, as it did before peaking in 1985, I think we'll see incremental advances bringing it to around 1.90 DM by the end of the year."

Table with 3 columns: Country, 1986, 1987. Rows include Deutsche mark, Japanese yen, Swiss franc, French franc.

The dollar has fallen for seven consecutive quarters, Mrs. McCaffery said. But it will rise in the current quarter from the daily average of the previous three months, showing at least a newfound stability in the market, she said. "We're seeing more of a mixed market. There are some bulls," Mrs. McCaffery said. "It would say 75 percent of the market is still very strongly bearish."

The market went long on dollars and then everyone scrambled to sell because there were rumors the Fed was selling dollars," Mr. Holland said. "It shows how sensitive the bullish sentiment is right now to news and rumors." The relative strength of the dollar in recent weeks drew a mixed appraisal from bankers and officials attending an international monetary conference in Hamburg. For Karl Otto Pöhl, president of the Bundesbank, the dollar's performance "confirms that the adjustment process is under way. Markets are making the same assessment and therefore the dollar is recovering."

DEBT: U.S. Owes Most

(Continued from Page 1)

that more work is performed by teams of workers in the pre-assembly stage, before the parts are loaded onto the slow-moving carriers weaving through the plant. At Uddevalla, the work teams will perform an even greater variety of tasks. Volvo officials say that the plant will use a "standstill production" system, with workers clustered around a car while parts and materials are shuttled to the work stations. The cars will be mounted on Kalmar-type carriers, but they might remain at a work station for hours. Volvo workers look forward to the adoption of the new system; in their view, the move away from assembly-line production at Kalmar has not gone far enough.

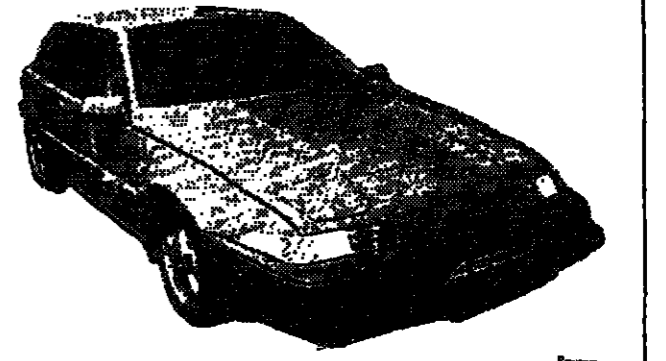
VOLVO: Automaker Drops Assembly Line, Sweeps Tedium Off Shop Floor

(Continued from first page)

Worker surveys show that 90 percent prefer the less structured pre-assembly work, even when the pace is faster. To the more regimented assembly tasks on the carriers. Uddevalla promises an added measure of independence. "We want to move away from assembly-line production faster than anyone else," said Peter Borjesson, a 38-year-old worker and an official of the Council of Metalworkers Union. The best guide to Volvo's production is the two-story Kalmar plant, whose hexagonal, cellular configuration makes it resemble a giant honeycomb when viewed from above. Its innovative techniques have been copied both by other Volvo plants and other automakers, including General Motors Corp.

Recalling When Volvos Weren't So Chic

By John Holusha



DETROIT — Volvos may be de rigueur among all those young professionals who have flocked to the American suburbs to raise their families, but it certainly was not always that way. When Volvo AB of Sweden first marketed its cars in the United States in the 1950s, they literally stood out.

The graceful sedans resembled cars that plied American roads in the 1930s and 1940s, and the company sold only 1,600 cars in 1956, its first year in the U.S. market. Volvo no longer outsells BMW, Audi, Mercedes-Benz and Saab in the United States, but has not become the largest marketer of pricey European imports by being one to embrace the latest fad. In the 1950s and 1960s, when U.S. automakers were emphasizing flashy styling, greater horsepower and size, Volvo focused on durability, function and safety. Its advertising featured testimonials to the longevity of Volvo cars, and how well they protected passengers in crashes. As a result, Volvo became the

Bankers See Unsettling Risks in Settlements

By Carl Gewirtz

HAMBURG — Bank settlement procedures, an arcane technical function traditionally left to technicians, have moved up to the board room as still another risk for bankers to be concerned about. This was made clear Tuesday when the heads of the world's 109 largest commercial banks devoted half a day of their three-day annual International Monetary Conference to the subject. Of the five separate working sessions, this was the only one dealing with banking procedures.

Participants were told that the increasing globalization of financial markets and the explosion in the volume of daily transactions has raised the systemic danger of a breakdown in the settlements process, whether from a failure in technology or the bankruptcy of a counterparty. At the same time, bankers made clear that they are still at the stage of trying to define weaknesses rather than proposing solutions.

Efforts are under way," said E. Gerald Corrigan, president of the New York Federal Reserve Bank. "But the issues are complex, and we don't want to be hasty in coming to grandiose conclusions." Dennis Weatherstone, president of Morgan Guaranty Trust, described the problem as he saw it. "We now have a huge, complex, interlocking system of national and global markets, operating 24 hours a day, with settlements procedures for both cash and securities varying widely among markets, and provisions for managing risk — and containing problems in the system if they do occur — still in their infancy."

A major concern among bankers is the amount of time now taken to settle dollar-denominated transactions which, under current procedures get settled in New York at the close of the business day. Mr. Weatherstone suggested the creation of regional clearing mechanisms in Europe and Asia. Separately, Federal Reserve Chairman Paul A. Volcker on Tuesday denied recent rumors that he would join Continental Illinois Corp. when his term expires in August. "I've got no intention of going to any commercial bank," said Mr. Volcker, who is attending the conference here.

million on revenues of \$5.48 billion

One reason Volvo is thriving is that its cars are high-priced, with base sticker prices in the United States ranging from about \$15,175 to nearly \$55,000. Volvos, which long had a utilitarian image for Americans, are now seen as luxury cars and have become highly popular with young professionals. But an equally important reason for Volvo's stellar performance is that its quality and productivity have improved markedly. Not all of the improvement can be attributed to innovation in its shop floors, but this clearly has helped. "In the early years, a lot of people said Kalmar was for the birds, that it would never work in the real world," said Mr. Gyllenhammar. "But now almost all our plants use

different working environment, more varied jobs, greater responsibility

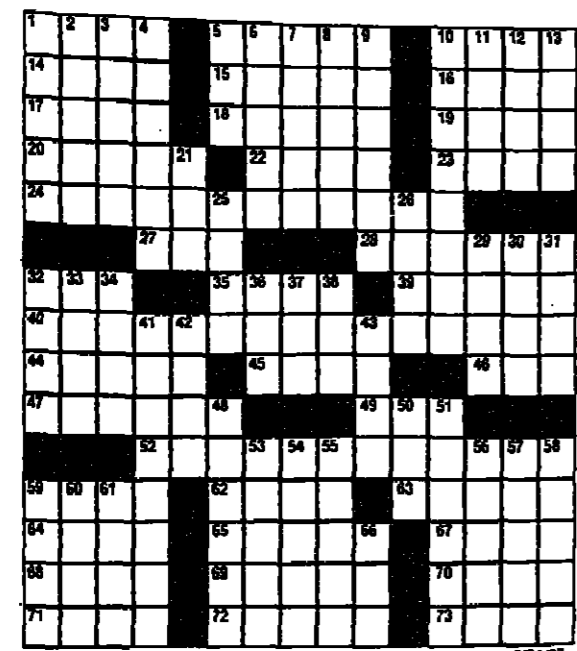
for quality and an active role in decision-making. The new approach was praised from Sweden's social liberals, but many in the industry doubted that it would be practical. For a while, the skeptics seemed to be right. By the late 1970s, productivity and quality had slipped, while a weak dollar made Volvo's cars more expensive in its biggest market, the United States. In 1980, Volvo's car operations had a loss of more than \$45 million. Throughout that testing period, Volvo's management was convinced that the execution of its idea was flawed, not the principle of work teams. And through a series of small but significant improvements, the company was able to significantly improve its quality and productivity.

The something extra was a different working environment, more varied jobs, greater responsibility

for quality and an active role in decision-making. The new approach was praised from Sweden's social liberals, but many in the industry doubted that it would be practical. For a while, the skeptics seemed to be right. By the late 1970s, productivity and quality had slipped, while a weak dollar made Volvo's cars more expensive in its biggest market, the United States. In 1980, Volvo's car operations had a loss of more than \$45 million. Throughout that testing period, Volvo's management was convinced that the execution of its idea was flawed, not the principle of work teams. And through a series of small but significant improvements, the company was able to significantly improve its quality and productivity.

Large financial table with multiple columns and rows, including stock prices, market indices, and company data. Includes sub-headers like 'Tuesday's OTC Prices' and 'NASDAQ prices as of 4 P.M. New York'.

have been met.



ACROSS
1 Wound mark
2 Sugar serving
3 Spanish movie house
4 Religious garb
5 Baked in
6 Iron and Industrial
7 Engraved pillar
8 Judge
9 Rosario
10 Argentine town
11 Picnic
12 Crockett and Burnett
13 Half a score
14 Trapped
15 River in Me.
16 Japanese port
17 A conditioning exercise
18 Peace goddess
19 code
20 Reno-to-Las Vegas dir.
21 Justice O'Connor
22 Boot
23 Evasive greeters
24 Rural event
25 Soft drink
26 Seer's card
27 "Christie"
28 Obliterate
29 Used a saddle
30 Southern notation
31 Was fragile
32 Mrs. Kovacs
33 College in N.C.
34 Bergen's Mortimer
35 Transmit
36 Organic compound
37 Cheers
38 Psyche's beloved
39 Trick
40 Sale-tag notation
41 Trevi coin
42 Capital of South Yemen
43 Cord or Oakland
44 Canzone
45 Telencephalon
46 Wheys
47 Ascot
48 Cheroot
49 Pico de
50 Spain
51 Take exception
52 Expressions of pleasure
53 Dull finish
54 "Fuzzy Wuzzy" was
55 Subject to planation
56 He sculpted G.B.S.
57 Lippizaner, e.g.
58 is the spur
59 Milton
60 Dye plant
61 "Meet Me - Louis"

PEANUTS



BLONDIE



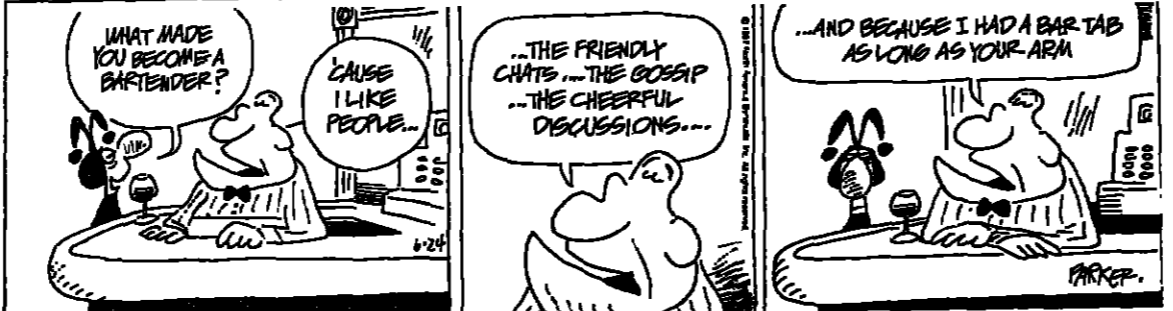
BEEBLE BAILEY



ANDY CAPP



WIZARD of ID



REX MORGAN



GARFIELD



DENNIS THE MENACE



JUMBLE

Unscramble these four Jumbles, one letter to each square, to form four ordinary words.
SOKYM
DYSIA
TOSFRY
FLUTIP
Answer here: "SOKYM" (Answers tomorrow)
Yesterday's Jumble: POUND BOUGH FERVID TALKER
Answer: What caused the puns in the story? — A FORK IN THE ROAD

WEATHER

Table with columns for EUROPE, ASIA, AFRICA, LATIN AMERICA, NORTH AMERICA, MIDDLE EAST, OCEANIA. Lists cities and weather conditions.

World Stock Markets

Table listing stock market indices for various countries including Amsterdam, London, Frankfurt, Zurich, and others. Includes closing prices and percentage changes.

BOOKS

IN SEARCH OF MELANCHOLY BABY
By Vasily Aksyonov. 224 pages. \$15.95.
Random House, 201 East 50th Street, New York, N.Y. 10022.
Reviewed by Jonathan Yardley

MIGRATING is something like going to your own funeral, Vasily Aksyonov writes, "the only difference being that after your funeral your nervous system dies down..."

Solution to Previous Puzzle
CAKE SOAP AGATE
AMOS INGE COLON
PURPLE COW CLOUD
ESEE OSE ELUDERS
TEAPOT REESE
IMANE VENDOR
SHONE EDDY GORE
PERKY ALI TOMES
TRAP DLIV ROOST
SOLACE OASIS
NOLAN ALLETE
SMOTHER AIL ORA
PECHE YELLOWDOG
ESTER ARGO HAVE
GHORE NEAR OYER

BEST SELLERS

Table of best-selling books. Columns include Title, Author, and Last Week's Rank.

BRIDGE

By Alan Truscott
ON the diagramed deal from the Brazilian Trials, a slightly greedy double helped the former world champion Gabriel Chagas overcome a bad trump split...

BRIDGE

Diagram of a bridge hand. Shows cards in each hand and the bidding sequence.

BRIDGE

Table of exchange rates for various currencies including the Deutsche Mark, Swiss Franc, and others.

SPORTS

Barriers Seen To Export of NFL Games

By Samuel Abr... PARIS — Tickets for the Denver Broncos-Los Angeles Rams exhibition game in London on Aug. 9 are going quickly and a sellout of 80,000-seat Wembley Stadium is expected for a second year.



Boston's Dennis (Oil Can) Boyd on the way to a 5-2 victory over Milwaukee in his first start of 1987, after a arm trouble.

The Oil Can's Fixed, And Red Sox Are Glad

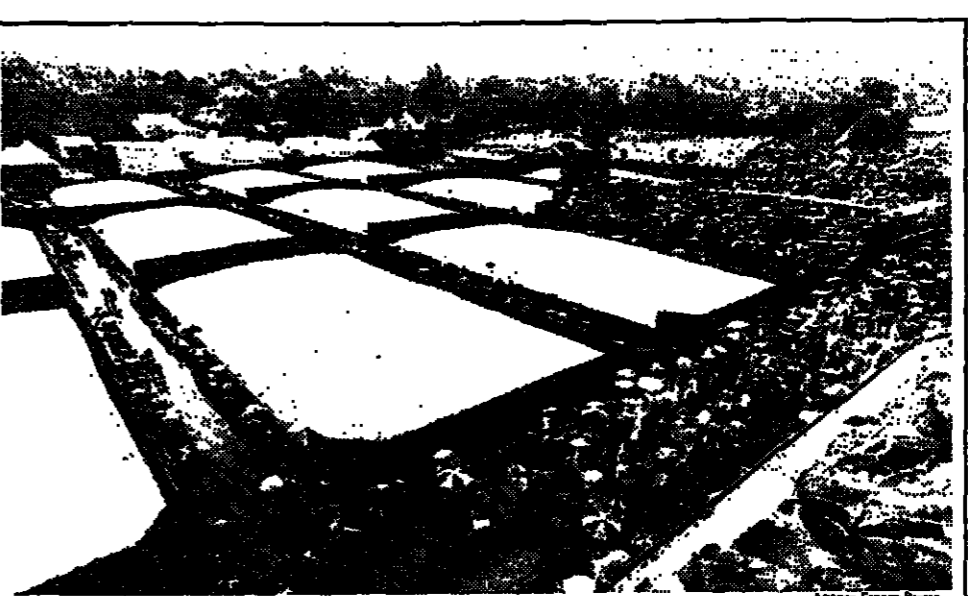
Compiled by Our Staff From Dispatches BOSTON — The Boston Red Sox have reason to feel good about baseball again after watching Dennis (Oil Can) Boyd pitch for the first time this season.

BASEBALL ROUNDUP

Major-league debut. Boston defeat of the Milwaukee Brewers, 5-2, in a game called in the eighth inning because of rain. Boyd threw 82 pitches in an impressive return from the disabled list.

Wimbledon Rain Ends, Becker Wins

WIMBLEDON, England — Boris Becker began his rain-delayed defense of the Wimbledon men's tennis championship Tuesday with a 6-4, 6-2, 6-4 victory over Karel Novacek of Czechoslovakia.



Hot-air inflated covers shielding Wimbledon's courts before the rain let up Tuesday.

Wimbledon Rain Ends, Becker Wins

The Associated Press WIMBLEDON, England — Boris Becker began his rain-delayed defense of the Wimbledon men's tennis championship Tuesday with a 6-4, 6-2, 6-4 victory over Karel Novacek of Czechoslovakia.

Now he was having second thoughts. "I haven't talked to anybody from the franchise," he said. "What I mean is that the teams would have to look at Europe as a potential television market, which I would look at it as well."

In 1978, Carson recalled, "the Giants were invited to Mexico City by the Mexican government, all expenses paid, just to hold a training camp. We practiced three or four days, no pads, just jerseys and helmets, and the stadium was full. Thousands of people."

"NFL coaches are all pretty much the same in their thinking," he said. "Nobody wants to be taken for an oddball, scheduling exhibition games against the world. But if they're all doing it, nobody could complain. That's the key to it: Lots of international games."

NFL Stars Are to Play 2 Exhibitions in Spain WASHINGTON — A team of National Basketball Association all-stars was leaving Tuesday for a two-game tour of Spain.

The NBA Draft Was a Little Man's Biggest Hour

By Michael Wilbon Washington Post Service NEW YORK — David Robinson decided to pose with Vice President George Bush and play a few holes of golf Monday, rather than come here for the formality of being selected by San Antonio as the No. 1 pick in the NBA's college draft.

With the 12th pick, the Bulls drafted a man who, if he makes the team, will be the National Basketball Association's smallest player ever — the 5-foot-3 (1.61-meter) point guard Tyrone (Mugsy) Bogues.

Bogues helped make history again about 45 minutes later when his former high school teammate, Reggie Lewis, was drafted with the No. 32 pick by the Boston Celtics. Bogues and Lewis had played together at Baltimore's Dunbar high school, along with Reggie Williams.

when Lewis's name was announced was only slightly more subdued. "We were all determined, we all wanted to make something of ourselves," Williams said. "I knew we'd all have productive college careers. But you just can't expect, with all the tens of thousands of players across the nation, that three little guys from one team would wind up going in the first round like this."

"I'm really proud of Mugsy. How long has he been proving people wrong, the people who keep saying he's too small?" Bob Wade, who coached the three at Dunbar and is now coach at University of Maryland, said: "I'm proud of every last one of them. But for a guy like Tyrone to beat the odds and be the 12th pick of the first round is just fantastic."

British Managers' Iberian Migration

International Herald Tribune LONDON — It would be stretching truth a bit to suggest the British are colonizing Spain. But soccer missionaries, part of the export package during Britain's empire building, are gathering on the Iberian peninsula.

By Friday seven British managers will be running Spanish clubs. Three more work in Portugal. English is back in vogue. Lousy linguists, the British may be, but pesetas by the billion are gambled on Anglo-Saxon discipline and rigour transforming the Latins.

SCOREBOARD

Baseball

Table with columns for Major League Standings (American League East, West, National League East, West) and Monday's Line Scores.

Baseball

Table with columns for Major League Leaders (Pitching, Hitting, Fielding) and Monday's Line Scores.

Tennis

Table with columns for Wimbledon Men's Singles First Round and Women's Singles First Round.

Basketball

Table with columns for NBA Draft Selections (First Round, Second Round, Third Round, Fourth Round) and Monday's Line Scores.

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British Managers' Iberian Migration

Rob Hughes

Rob Hughes new four-year deal worth more than any manager in England. Yet Kendall catches the gravity of the situation, and he is not a man who is easily intimidated.

Advertisement for Blancpain watches, featuring a watch image and text: "Since 1735 the oldest name in swiss watchmaking. But don't expect to find a quartz in a Blancpain watch. You won't. And you never will."

OBSERVER

Upstairs, Downstairs

By Russell Baker

NEW YORK — The Goetz case is about a failure of government. The government of New York City has failed for years to provide its subway passengers with ample protection against violent assault.

For this reason it is not surprising that many black New Yorkers, in their first response to the Goetz verdict, said they feared it would encourage white vigilantes to go armed in the streets, making the normally dangerous life of young black men even more perilous.

By Francis X. Clines

Vietnam, According to Stanley Kubrick



Matthew Modine as Private Joker in "Full Metal Jacket," new film by Stanley Kubrick (right): "That first impression is the most precious thing you've got."

LONDON — The reasuring thing about Stanley Kubrick is that after being deep as Yaweh in the creation of one movie for the last five years, he emerges gentle and curious on the seventh day, asking about beer commercials and envying silent-film makers and recalling the pleasures of Manhattan's old Thalia movie theater.

No, he had no craving to make a signature movie about that war, he says. He was reading the Virginia Kirkus Review, as he usually does, looking for stirring fiction about something anything that might promise a stunning transition to film and he came upon a novel, "The Short-Timers," by

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George Abbott in Form At His Own Centenary

"One hundred years to be a very lucky number," said George Abbott. "One of the great things is that everybody loves you." The entire theater world assembled at a gala 100th birthday party for the producer-director-writer-actor in New York's Plaza Theater.

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